

# CERTIFICATION

OCTOBER 28, 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

**GERMAN FARMERS MUTUAL ASSESSMENT INSURANCE**

**ASSOCIATION OF HALL COUNTY**

as of

December 31, 2013

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  
OCT 28 2014  
FILED

*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

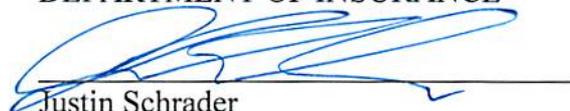
Take notice that the proposed report of the financial examination of

**GERMAN FARMERS MUTUAL ASSESSMENT INSURANCE ASSOCIATION OF  
HALL COUNTY**

dated as of December 31, 2013, verified under oath by the examiner-in-charge on October 1, 2014, and received by the company on October 3, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 16 day of October, 2014.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

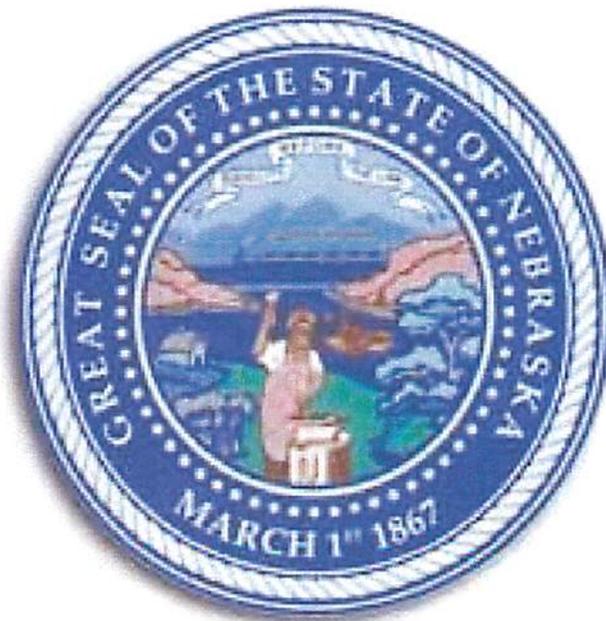
**EXAMINATION REPORT**

**OF**

**German Farmers Mutual Assessment Insurance Association of Hall County**

**as of**

**December 31, 2013**



Cairo, NE  
August 25, 2014

Honorable Bruce R. Ramge  
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:

**German Farmers Mutual Assessment Insurance Association of Hall County**  
**151 Tilden Road**  
**Cairo, NE 68824**

(hereinafter also referred to as the "Association") and the report of such examination is respectfully presented herein.

### INTRODUCTION

The Association was last examined as of December 31, 2009 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, 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 both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes.

A general review was made of the Association's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Association. 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, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Association'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 Association's general plan of operation.

Data reflecting the Association's growth during the period under review is reflected in the financial section of this report under the caption "Body of Report".

The Association'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. The Association's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Association 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 Association's financial condition as of December 31, 2013.

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

## **DESCRIPTION OF ASSOCIATION**

### **HISTORY**

The Association was organized as an unincorporated mutual fire and lighting insurance association on March 25, 1892. On June 1, 1970, insurance against windstorm and tornado was added. On February 23, 1952, the name of the Association was determined to be "The German Farmers Mutual and Storm Assessment Insurance Association of Grand Island" and on January 12, 1957, the name was changed to "The German Farmers Mutual Fire, Storm, and Hail Assessment Insurance Association of Grand Island, Nebraska." On April 12, 1984, the name was changed to "German Farmers Mutual Assessment Insurance Association of Hall County, Incorporated." At the same time, the Association changed from an unincorporated association into an incorporated insurance association.

### **MANAGEMENT AND CONTROL**

#### **Membership**

Article III of the Association's By-Laws state that applicants must own property, to be covered, "located in Hall, Merrick, Howard, Sherman, Buffalo, Clay, Adams, and Hamilton Counties in Nebraska or be scheduled as to its location." The applicants become members upon the approval of the Board of Directors. The By-Laws also state that, "members have one vote-regardless of the number of policies a member may hold, and only one member of a number who all have equity in one policy is permitted to vote in meetings."

Article IV of the By-Laws state, “the annual meeting of the members shall be held on the fourth Saturday of January of each year at Grand Island, Nebraska.” The members present at any called meeting constitutes a quorum.

**Board of Directors**

The By-Laws of the Association state that the, “management of the affairs of the Corporation shall rest with a Board of twelve policyholders, who must be members of the corporation, and shall constitute the Board of Directors.” The terms of the Board of Directors are staggered with four directors elected at each annual meeting of the members for a term of three years. All vacancies in the Board shall be filled by majority vote of the Board until the next annual meeting. Nine members shall constitute a quorum at all meetings.

The following persons were serving as Directors at December 31, 2013:

<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Term Expires</u></b>
Joe Boehle	Libory, Nebraska	2014
Harvey Hadenfeldt	Wood River, Nebraska	2014
Michael Peters	Libory, Nebraska	2014
Roy Stolenberg	Cairo, Nebraska	2014
Craig Harders	Wood River, Nebraska	2015
William Kurz	Palmer, Nebraska	2015
Albert Moeller	Grand Island, Nebraska	2015
Keith Ostermeier	Grand Island, Nebraska	2015
Eldon Kroeger	Doniphan, Nebraska	2016
Kathleen Mettenbrink	Grand Island, Nebraska	2016
Gregory Niemoth	Grand Island, Nebraska	2016
Jerald Placke	Libory, Nebraska	2016

Directors received \$15.00 per hour plus 50¢ per mile for each meeting attended.

**Officers**

The By-Laws provide that, “the Board shall elect from its own number a President, and a Vice-President. A Secretary, a Treasurer, and the number of appraisers to be designated and elected

by the Board...The Officers of the Corporation may consist of a President, one Vice-President, a Secretary, and other such Officers and assistant Officers as may be deemed necessary.”

Officers serving the Association at December 31, 2013, were as follows:

<u>Name</u>	<u>Office</u>
Roy Stoltenberg	President
Michael Peters	Vice-President
Cindy Yoder	Secretary
Mary Stoltenberg	Treasurer
Leroy Arends	Agent, Appraiser and Adjuster
Rick V. Yoder	Agent, Appraiser and Adjuster

### **TERRITORY AND PLAN OF OPERATION**

As evidence by current Certificate of Authority, the Association is licensed to transact business in Nebraska. As allowed in the Articles of Incorporation, the Association currently writes fire, storm, and hail coverage on property located in Hall, Merrick, Nance, Howard, Sherman, Buffalo, Clay, Adams, and Hamilton counties in Nebraska.

Article IV of the Articles of Incorporation state the principal office will be Route 2, P.O. Box 96, Grand Island, Nebraska. This is no longer the principal of office of the Association and it is recommended that the Association amended the Articles of Incorporation to include the new principal office in Cairo, Nebraska.

Appraisers are designated by the Board. Appraisers serve as both agents and claim adjusters, as well as appraise property for underwriting purposes. The appraiser’s territory is generally acknowledged as being either east or west of Highway 281 in Nebraska. Appraisers receive a 40% commission on new and increased insurance written by the Association. Appraisers also receive 75% of the commissions on any liability policies written by another insurer, namely Acceptance Casualty Insurance Company. The Association retains the other 25% of the liability

commission. Appraisers also receive \$16.00 per hour and 50¢ per mile while on Association business.

### **FIDELITY BOND AND OTHER INSURANCE**

The Association has an “Insurance Company Combined Professional Liability and Directors & Officers Liability Insurance Policy” in force at December 31, 2013 which provided coverage of \$1,000,000 per claim and in aggregate subject to a \$10,000 per claim deductible. In addition, an “Insurance Agents Errors and Omissions Policy” having a \$1,000,000 limit per claim and in aggregate subject to a \$2,500 per claim deductible was also in force with same non-admitted carrier.

The Association also has in effect a commercial general liability policy providing coverage of \$2,000,000 with limits of; \$1,000,000 each occurrence, \$300,000 each damage to rented building, and \$15,000 in medical expense any one person. Additionally, a standard “Employers’ Liability and Nebraska Workers’ Compensation Policy” was in force with the same authorized insurer.

### **REINSURANCE**

During each year covered by this examination, the Association had in effect a reinsurance agreement with the Nebraska Farmers Mutual Reinsurance Association (NFMRA), Wahoo, Nebraska. The term of each reinsurance agreement was for a period of one year. The latest agreement was executed as of January 1, 2013.

At the time of the execution of the reinsurance agreement in effect on December 31, 2013, with NFMRA, the Association, as a member Association, represented that it had the sum of \$157,762,883 of fire insurance in-force and \$157,762,883 of wind insurance in-force covered by this agreement.

The coverage under this agreement is as follows:

Aggregate - NFMRA is liable for 100% of the amount, if any, by which the Association's aggregate ultimate net losses incurred during the term of this contract exceed your 2013 Retention (\$2,700 per million).

Excess Per Risk - Prior to the Association incurring ultimate net losses, exceeding their aggregate retention mentioned above, on a single risk up to and equal to \$460,000.00, NFMRA will be liable for 100% of the excess greater than \$40,000.00. If the Association's net losses do not exceed the Aggregate retention for the year, the amount recovered is to be refunded to NFMRA prior to March 1 of the following year.

Mobile Home Risk- The Association shall retain the first \$1,000 of each risk, each loss, as respects to mobile home risks located in trailer courts. Also, limit of coverage shall be \$48,000 for losses in any one trailer court. Two or more trailers in one location shall constitute a trailer court.

Limit Per Risk- Single risks in excess of \$700,000 as respects to farm outbuildings and machinery pertaining to farmowners policies or \$500,000 for all other covered property and/or policies, any one risk shall be pro-rata reinsured by each member company.

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 Association's operations during the examination period and the financial condition of the Association at December 31, 2013 and its transactions during the year 2013 as determined through this examination.

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Balance, beginning of year	\$1,096,871	\$1,262,761	\$1,035,448	\$874,217
<b><u>INCOME</u></b>				
Gross receipts from assessments	\$ 591,186	\$ 625,309	\$ 713,980	\$867,648
Gross cancellation & policy fees	140	240	175	355
Less return on cancellations	<u>5,887</u>	<u>4,921</u>	<u>8,294</u>	<u>6,409</u>
Net received from members	\$ 585,439	\$ 620,628	\$ 705,860	\$861,594
Interest on investment	14,437	11,038	7,376	3,952
Other interest- surplus note	2,101	1,791	1,791	1,630
Vacancy permits/fees	1,100	1,125	875	625
Liability premium	59,708	61,883	64,603	75,552
Miscellaneous	<u>15,842</u>	<u>46</u>	<u>4</u>	<u>6,224</u>
Total income	<u>\$ 678,627</u>	<u>\$ 696,511</u>	<u>\$ 780,509</u>	<u>\$949,577</u>
<b><u>DISBURSEMENTS</u></b>				
Gross losses paid	\$ 246,026	\$659,364	\$ 558,241	\$484,655
Less discount and salvage		400	475	
Less reinsurance recovered	<u>81,406</u>	<u>151,590</u>	<u>111,382</u>	<u>177,277</u>
Net losses paid	<u>\$ 164,620</u>	<u>\$507,374</u>	<u>\$ 446,384</u>	<u>\$307,378</u>
Adjusting expense			\$ 3,082	\$ 1,217
Commission paid	\$ 25,426	\$ 34,181	44,769	56,401
Salaries of agents	26,160	26,640	24,376	21,752
Expenses of agents	9,476	9,429	9,662	8,257
Salaries & expenses of Directors	3,698	2,704	2,573	3,239
Salaries of office employees	22,560	45,700	43,680	43,680
Expense of office employees	1,302	2,576	2,102	1,830
Postage	911	2,212	1,879	1,655
Insurance department licenses & fees	7,109	8,844	7,878	9,278
Payroll taxes	4,346	6,295	5,952	5,508
Advertising, printing, & office	6,486	9,754	6,626	6,978
Telephone	2,500	2,678	3,063	3,167
Reinsurance premiums paid	173,471	200,657	270,379	307,822
ACIC liability premium	53,524	52,647	57,430	64,332
Insurance expense	7,574	8,098	8,364	7,382
Meeting expense/dues	<u>3,574</u>	<u>4,037</u>	<u>3,540</u>	<u>4,101</u>

Total expenses	\$ 348,116	\$ 416,450	\$ 495,356	\$546,600
Total disbursements	\$ 512,736	\$ 923,824	\$ 941,740	\$853,978
Balance, end of year	<u>\$1,262,761</u>	<u>\$1,035,448</u>	<u>\$ 874,217</u>	<u>\$969,816</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2013**

**ASSETS**

Certificates of deposit	\$740,000	
Cash deposited in banks	217,506	
NFMRA surplus note	<u>12,310</u>	
Total ledger assets		<u>\$969,816</u>

**Assets Not Admitted**

NFMRA surplus note	<u>\$ 12,310</u>	
Total assets not admitted		<u>\$ 12,310</u>
Total admitted assets		<u>\$957,506</u>

**LIABILITIES AND SURPLUS**

Net unpaid losses	\$ 78,350
Unearned premiums	344,496
Premium taxes payable	<u>5,168</u>
Total liabilities	<u>\$428,014</u>
Surplus as regards policyholders	<u>\$529,492</u>
Total liabilities and surplus	<u>\$957,506</u>

## **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

There were no comments or recommendations made as a result of the previous examination.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Certificates of Deposit** **\$740,000**

This asset consists of twenty certificates of deposit in the amount of \$740,000, which are held with eleven separate banks located in Nebraska. All deposits were verified by certifications signed by officials of the respective banks.

### **Other Cash Deposited in Banks** **\$217,506**

This asset consists of a checking account with Union Bank, the balance at December 31, 2013 was \$99,540.14; a saving account at Union Bank, the balance at December 31, 2013 was \$117,940.69; and a saving account Archer Credit Union, the balance at December 31, 2013 was \$25.34. These deposits were verified by certifications signed by officials at the bank noted above.

### **Surplus Note** **\$ 12,310**

The surplus note issued by NFMRA had a value of \$12,310 as of December 31, 2013. This item is deducted, as an asset not admitted in both the Association's 2013 Annual Statement and the financial statements of this report in accordance with SSAP No. 41 of the NAIC Accounting Practices and Procedures Manual.

SSAP No. 41, paragraph 10(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 than the greater of 5% of admitted assets or \$6,000,000,

divided by capital or surplus. If 'statement factor' is negative, the surplus note(s) shall be carried at zero."

Calculation of the NFMRA's surplus note is as follows:

\$5,323,238	Admitted asset (including surplus note)
<u>358,468</u>	Less liabilities
\$4,464,770	Total capital, surplus and surplus note

\$5,323,238	
<u>5%</u>	of admitted assets
\$ 266,162	

Greater of \$266,162 or \$6,000,000

\$ 4,964,770	
<u>- 6,000,000</u>	
\$(1,035,230)/4,964,770 = -0.21	statement factor

**Net Unpaid Losses** **\$ 78,350**

This amount consists of fifteen 2013 and two 2012 unpaid losses, totaling \$78,350. A loss development calculation was completed and it indicated that the reserve established at December 31, 2013 was sufficient.

**Unearned Premiums** **\$344,496**

The unearned premium reserve was calculated by the Association by taking the net amount received multiplied by forty percent. The unearned premium reserve established at December 31, 2013 amounts to \$344,496.

**Premium Taxes Payable** **\$ 5,168**

This amount consists of the 2013 premium taxes due at year-end and paid in 2014.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Principal Office** - Article IV of the Articles of Incorporation state the principal office will be Route 2, P.O. Box 96, Grand Island, Nebraska. This is no longer the principal of office of the Association and it is recommended that the Association amended the Articles of Incorporation to include the new principal office in Cairo, Nebraska.

**Reinsurance Clause**- It is recommended that the Association amend its reinsurance contract to include an arbitration clause, an offset clause, and an error and omissions clause. It is also recommended that the Association include an entire agreement clause to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**ACKNOWLEDGEMENT**

The courteous cooperation and assistance by the Secretary, Cinder Yoder, and Treasurer, Mary Stoltenberg, of the Association during this examination is hereby acknowledged.

Respectfully submitted,



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Erin Garvin, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

Erin Garvin, 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 German Farmers Mutual Assessment Insurance Association of Hall County. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
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 German Farmers Mutual Assessment Insurance Association of Hall 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.

Erin Garvin

Examiner-in-Charge's Signature

Subscribed and sworn before me by Erin Garvin on this 1 day of October, 2014.

(SEAL)



TERRI A. KELLER  
Notary Public

My commission expires 12-24-2017 [date].

10/10/10

10/10/10

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GENERAL NOTARY - State of Indiana  
TERRI A. KELLER  
My Comm. Exp. Dec. 24, 2017

Handwritten signature or scribble.

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