

# CERTIFICATION

July 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 the

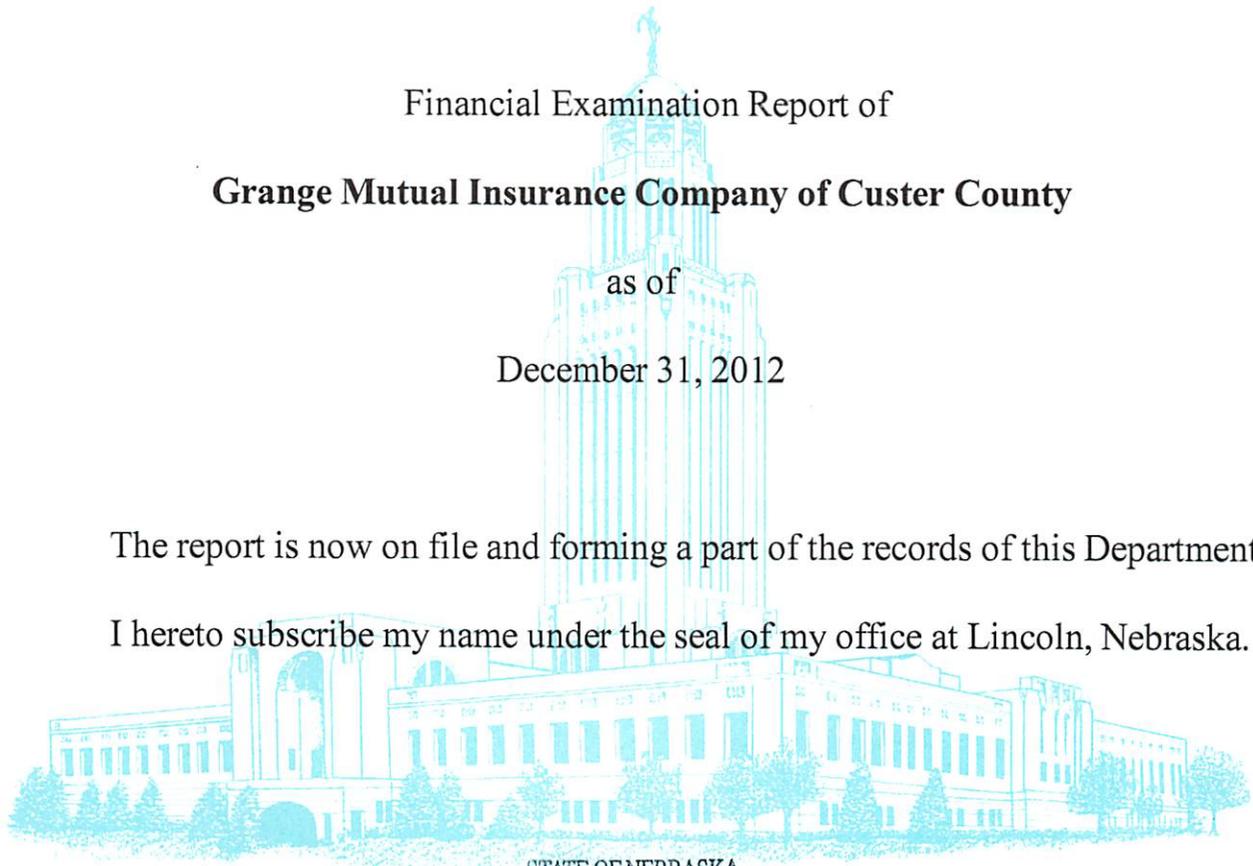
Financial Examination Report of  
**Grange Mutual Insurance Company of Custer County**

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

JUL 22 2013

FILED



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*Bruce R. Ramage*  
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DIRECTOR OF INSURANCE

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**GRANGE MUTUAL INSURANCE COMPANY of CUSTER COUNTY**

**as of**

**December 31, 2012**



Broken Bow, Nebraska  
June 1, 2013

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

Dear Sir:

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

**GRANGE MUTUAL INSURANCE COMPANY of CUSTER COUNTY**  
**420 South 8<sup>th</sup> Avenue**  
**Broken Bow, Nebraska 68822**

(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 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 history was traced and has been set out in this report under the caption "History". All items pertaining to management were reviewed, including the organization of the Company. The Articles of Incorporation and By-Laws were reviewed. The minutes of the meetings of the Members and the Board of Directors, held during the examination period, were read and noted. Attendance at meetings, elections of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Income and disbursement items were checked in sufficient detail to assure proper handling. Annual statement items were checked to the Company's records. The Company's reinsurance facilities were ascertained and noted, and have been commented upon within this report under the caption "Reinsurance". The assets were evaluated and verified and the liabilities determined so as to present herein a 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.

## **HISTORY**

The Company was incorporated on July 29, 1912, as a fire, lightning, windstorm and tornado company operating on the assessment plan in the County of Custer, Nebraska. Its Articles

of Incorporation and its By-Laws were amended in 1970. Such Amended and Substituted Articles and By-Laws were filed with the Nebraska Secretary of State on October 13, 1970, and subsequently filed with the Department of Insurance on April 18, 1972. Such Amended and Substituted Articles and By-Laws were filed with the Nebraska Secretary of State on March 3, 2013 and subsequently waiting to be filed with the Department of Insurance. The Amended and Substituted Articles of Incorporation provide that the principal place of business shall be at Broken Bow, Custer County, Nebraska, and that the territory of the Company shall be limited to the State of Nebraska. Article III of the Amended and Substituted Articles of Incorporation provides that the Company shall have perpetual existence as a corporation.

## **MANAGEMENT AND CONTROL**

### **Members**

Article IV of the Amended and Substituted Articles of Incorporation provides that, "the membership of the Company shall be limited to those persons or organizations having insurance in full force and effect. Membership and insurance may be obtained only by written application signed by the applicant and shall commence only when approved by the Secretary or his authorized representative and shall cease when such insurance is canceled or terminates from any other cause. The application shall be considered a part of the policy." Article V states that, "the annual membership meeting shall be held at Broken Bow, Nebraska, on the third Wednesday in February of each year, commencing at 1:30 P.M."

**Board of Directors**

Article VI of the Amended and Substituted Articles of Incorporation states that, "the corporate powers of the Company shall be vested in a Board of no less than five (5) and no more than nine (9) Directors, each elected by a majority vote of the annual meeting for a term of three years or until his successor is duly elected and qualified. The number of Directors to be elected at each annual meeting herein shall be determined by the number of terms which expire on the date of each meeting." Directors duly elected and serving the Company at December 31, 2012 were as follows:

<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Term Expires</u></b>
Roland Peterson	Broken Bow, NE	2016
Brennan Miller	Omaha, NE	2016
Tom Spahn	Ogallala, NE	2015
Curtis Smith	North Platte, NE	2015
Julianna Jenkins	Broken Bow, NE	2014
Bill Brush	North Loup, NE	2014

**Officers**

Article VI of the Amended and Substituted Articles of Incorporation states that, "the Directors shall elect such Officers as may be required for the proper conduct of the business of the Company, who shall serve a term of one year or until their successors have been duly elected and qualified." Section I of the Amended and Substituted By-Laws specifically states the duties of certain Officers. These Officers are the President, the Vice-President, the Secretary and the Treasurer. Officers serving the Company at the 2012 year-end were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Bill Brush	President and Secretary
Tom Spahn	Vice President
Brennan Miller	Treasurer

## **COMMITTEES**

The Amended and Substituted By-Laws state that, “the Executive Committee shall consist of the President, Vice-President, and Secretary-Treasurer/General Manager.” The members of the Executive Committee consist of Bill Brush, Tom Spahn and Curtis Smith. The Company has no other committees formed at the time of examination.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company has a fidelity bond in the amount of \$50,000. The amount of fidelity insurance is within the guidelines suggested by the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Company carries professional liability and Directors and Officers liability policy, in the amount of \$250,000.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to transact the business of insurance in the State of Nebraska as specified under subsection 5 and 18, Section 44-201 of the Nebraska Insurance Code.

The Company utilizes a series of policy forms, which comprise both casualty and liability coverage. The liability coverage is written with Acceptance Casualty Insurance Company through Farmers Mutual Insurance Company of Wahoo, NE.

At December 31, 2012 the Company was charging an annual assessment of \$8.48 per thousand for fire and extended coverage on all rural risks with a \$500 deductible. Urban risks other than homeowners were charged at \$6.88 per thousand for risks over \$25,000 with a \$500 deductible. Homeowners’ assessments are derived from a rate table and are based on underwriting

criteria. The rate for county schools and halls was \$8.06 per thousand with a \$500 deductible. All policies are currently issued on a one-year basis, and are billed annually or semi-annually. There is a \$50 policy fee charged on new business with an additional \$10 billing fee for each semi-annual billing.

The Company has 10 contract agencies with 23 licensed agents. Agents are paid a commission of 13% on new and renewal business.

The Board of Directors and Officers voted to arrange an agreement with The Insurance Center to handle all human resources, IT, rent and utilities for the Company. Reimbursement would be on a monthly basis beginning January 1, 2013. At the time of the examination, the Company did not have an agreement in place. It is strongly recommended that the Company get an agreement in writing and signed with The Insurance Center as soon as possible.

### **REINSURANCE**

The Company had entered into a combination individual occurrence of loss, aggregate excess and facultative reinsurance agreement with Grinnell Mutual Reinsurance Company. The agreement was effective January 1, 2002 and terminated December 31, 2011.

The Company became a member of the Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska, as of January 1, 2012. The term of this reinsurance agreement was for a period of one year and was renewed in 2013. Under the contract for 2012, the Company retained a liability equal to \$2,700.00 per million of its fire or wind insurance in force at the beginning of the year, whichever was greater. After the aggregate retention is reached, the

reinsurer assumes 100% of any additional liability. The Company's aggregate retention for 2012 was \$600,775.

Prior to incurring ultimate net losses exceeding the aggregate retention, the reinsurer will assume 100% of any insured loss on a single risk greater than \$40,000 up to \$500,000. Recoveries made under this section, which are greater than recoveries available under the aggregate retention, are deducted from subsequent aggregate recoveries. If recoveries are made under the per risk excess but the net losses do not exceed the ultimate retention for the year, the amount recovered not in excess of the aggregate retention is to be refunded to the reinsurance association prior to March 1 of the next year. This excess per risk coverage is not applicable once the ultimate net losses exceed the ultimate retention.

The Company retains the first \$1,000 of each risk, each loss, with respect to mobile home risks located in trailer courts. The reinsurer's limit of coverage for losses in any one trailer court is \$48,000. Two or more trailers in one location constitute a trailer court.

The reinsurer agreed to participate in losses to single risks insured up to a limit of \$500,000.00. The Company warrants that it will obtain pro rata facultative reinsurance on any single risk over \$500,000. The Company is the judge of what constitutes on risk except that in no event shall a building and its contents be considered more than one risk.

The Company did not maintain adequate records for reinsurance recoverables. It is recommended that the Company obtain and retain documentation from all sources of reinsurance recoveries along with any other documentation for income and assets per Section §44-5905 of the Nebraska Insurance Statutes.

The reinsurance contract contains a standard insolvency clause.

## ACCOUNTS AND RECORDS

The Company is using the OASIS accounting software package supported by Grinnell Mutual Reinsurance Company (GMRC). As of August 2007, the Company is using the OASIS claims software program for claims which is also supported by GMRC. Issues were encountered in tying general ledger amounts to the CPA work to the 2012 Annual Statement. The system the Company is currently using appears to be adequate and contains the necessary information for preparing the Annual Statement and reporting to the Board of Directors, but with the recent turnover in staff, knowledge and understanding of the system and reporting has taken time.

The general ledger trial balances did not reconcile to the 2012 Annual Statement. The CPA completed a trial balance that ties out to the original ledger amounts with the help of adjustments but several of those adjustments were not applicable. Therefore, the examiner was unable to gain an acceptable level of confidence in the ledger balances and the stated amounts within the Annual Statement. Due to the inability to reconcile the general ledger, partially because of the inconsistent booking of cash and accrual transactions, the examiner attempted to verify the income and disbursements independently with limited success due to the available documentation. Therefore, a \$12,970 write-in income amount “examination balancing” is needed to make the Annual Statement tie out. It is strongly recommended that the Company make every effort to fully understand all ledger entries to ensure they are accurately posted, including reconciliations.

It is also recommended that 1) the Company reconcile the general ledger balances for premiums and claims to subsidiary records on a monthly basis and retain the reconciliation as part of its work papers, 2) the general ledger unpaid claims account not be used for tracking

unpaid claims, rather using the open claims report for reporting of unpaid claims at year end on the Annual Statement, and 3) non-ledger and accrual adjustments made for the 2012 Annual Statement should not be entered into the 2013 general ledger, therefore those adjustments for 2012 input in 2013 be reversed out of the 2013 ledger.

The Company is in the process of changing over to a new accounting system; Priority Data Spectrum Systems, in 2013. This system will provide the Company with a new and updated accounting system along with allowing agents to quote and write policies. The Company also has a claims service agreement with Expedient Claims Service. This service is used for the field adjusters, training adjusters and claim services. The cost of this service is based on claims adjusted with the Company currently paying \$3,519 per year which is based upon premium volume of less the \$1,500,000. Company expects to stay at the current rate into the future.

### **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 2012 amounts are based on the current examination:

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
Balance, beginning of year	\$ 577,191	\$ 649,665	\$ 600,068	\$ 317,473	\$ 522,709
<b><u>Income</u></b>					
Gross receipts from assessments	\$1,516,125	\$1,187,170	\$1,194,097	\$1,118,624	\$1,018,571
Gross membership, cancellation & policy fees					58,850
Assessments paid in advance	_____	_____	_____	_____	25,966
Net received from members	\$1,516,125	\$1,187,170	\$1,194,097	\$1,118,624	\$1,103,387
Interest on investments and dividends	15,755	8,944	4,501	2,176	30,143
Premium collected for other companies	156,281	135,226	128,549	22,632	142,818
Liability commissions collected					10,489
State tax refund	3,228		3,450	3,260	
Federal tax refund	55,221	8,698	25,523	63,201	
Payroll reimbursement	11,583	177			
Contract labor			10,800	19,200	
Miscellaneous					298
Surplus note				340,000	
Examination balancing	_____	_____	_____	_____	12,970
Total income	<b><u>\$1,758,463</u></b>	<b><u>\$1,340,217</u></b>	<b><u>\$1,366,918</u></b>	<b><u>\$1,569,093</u></b>	<b><u>\$1,300,105</u></b>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b><u>Disbursements</u></b>					
Gross losses paid	\$1,758,304	\$1,015,736	\$1,006,728	\$1,241,183	\$ 600,603
Less discount and salvage	3,851				817
Less reinsurance recovered	<u>947,307</u>	<u>331,870</u>	<u>133,473</u>	<u>482,430</u>	<u>696,675</u>
Net losses paid	\$ 807,146	\$ 683,866	\$ 873,256	\$ 758,753	\$ (96,889)
Adjusting expense	30,600	49,555	50,828	58,711	21,577
Legal expenses on losses	4,093	9,193	51		
Commissions to agents	185,803	145,804	145,138	138,196	131,200
Salaries & expenses of Directors & Officers	4,425	2,979	4,671	3,512	
Salaries of office employees	121,963	100,845	115,223	94,510	63,366
Rent	2,600	2,400	2,200	2,400	1,600
Repair on real estate		650			
Insurance Department licenses and fees	69	128	194	129	85
All other taxes	20,220	24,869	20,488	20,248	17,249
Advertising, printing and stationery	9,731	7,075	7,843	8,087	13,088
Telephone, postage and utilities	6,853	5,324	4,784	4,707	6,865
Reinsurance premiums paid	292,670	199,415	220,847	227,544	436,611
Interest on borrowed money					307
Boards, bureaus and associations	4,639	4,347	4,501		4,756
Inspection and loss prevention	1,588	17,710	6,710		37,369
Employee welfare and educations	2,149	2,764	4,440		7,088
Insurance	5,840	5,530	5,744		451
Equipment and office expense	6,470	6,093	6,658		14,476
Miscellaneous & adjustments	189	81	657		156
Other expenses				32,049	1,888
Subrogation/Salvage paid to reinsurer	5,450				
Travel & meetings	229	249	139		26
Federal income tax	20,000		57,550		
Commissions paid agents other companies	20,974	16,933	16,710		7,696
Premium collections paid to other companies	<u>132,288</u>	<u>104,004</u>	<u>100,881</u>	<u>15,011</u>	<u>125,321</u>
Total disbursements	<u>\$1,685,989</u>	<u>\$1,389,814</u>	<u>\$1,649,513</u>	<u>\$1,363,857</u>	<u>\$ 794,286</u>
Balance, end of year	<u>\$ 649,665</u>	<u>\$ 600,068</u>	<u>\$ 317,473</u>	<u>\$ 522,709</u>	<u>\$1,028,528</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2012**

**ASSETS**

**Ledger Assets**

Common stocks	\$625,294	
Cash deposited in banks	342,028	
Reinsurance refund receivable	<u>61,206</u>	
Total ledger assets		<u>\$1,028,528</u>

**Non-Ledger Assets**

Unrealized gain (loss)	\$ 61,186	
Unpaid assessments levied on or after Oct 1 <sup>st</sup> , current year	22,659	
Unpaid assessments levied prior to Oct 1 <sup>st</sup>	1,118	
Furniture & supplies	<u>6,018</u>	
Total non-ledger assets		<u>\$ 90,981</u>
Gross assets		<u>\$1,119,509</u>

**Assets Not Admitted**

Agents' balances representing business written prior Oct.1	\$ 1,118	
Furniture, fixtures, and supplies	<u>6,018</u>	
Total assets not admitted		<u>\$ 7,136</u>
Total admitted assets		<u><u>\$1,112,373</u></u>

## LIABILITIES AND SURPLUS

Unpaid losses adjusted	\$ 59,277
Less reinsurance	<u>272</u>
Net unpaid losses	\$ 59,005
Unearned premiums	490,778
Accounts payable	6,052
Agent commission payable	10,606
Premium written for others	9,489
Income taxes payable	5,330
Premium taxes payable	4,901
Interest on borrowed money	<u>14,271</u>
Total liabilities	\$ 600,432
Surplus note	340,000
Surplus as regards policyholders	<u>171,941</u>
Total liabilities and surplus	<u>\$1,112,373</u>

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendation appearing in the previous report of examination is reflected below together with the remedial action taken by the Company to comply therewith:

**Accounts and Records** - The Company should reconcile the general ledger balances for premiums and claims to subsidiary records on a monthly basis and retain the reconciliation as part of its work papers

**Action:** Company has not complied with this recommendation. This recommendation will be included under the caption "Summary of Comments and Recommendations".

## COMMENTARY ON CURRENT EXAMINATION FINDINGS

### ASSETS

**Common Stocks** **\$625,294**

The Company's investment portfolio consisted of investments in 48 common stocks with

a portion of those held on short options. The Company's Annual Statement value for these stocks was \$691,289, which includes an unrealized gain of \$61,186. Common stocks should be carried at cost with any unrealized gains (losses) included as a non-ledger asset. The examination amount includes the cost basis of \$621,379 plus a cash deposit within the account in the amount of \$3,915.

The Company's securities are being held at TD Ameritrade in Omaha, Nebraska. Title 210, Chapter 81 of the Nebraska Department of Insurance Rules, promulgated by the Director of Insurance, sets out the terms with which custody agreements must comply. It is recommended that the Company formalize an agreement which complies with Title 210, Chapter 81, Section 3 of the Nebraska Department of Insurance Rules.

**Cash Deposited in Banks** **\$342,028**

At December 31, 2011, cash consisted of the following:

Checking Account Bank of Broken Bow	\$ 85,969
Checking Account Bank of Broken Bow	5,943
Savings Account Security State Bank	<u>250,116</u>
Total	<u>\$342,028</u>

The Company maintains two checking accounts with Bank of Broken Bow in Broken Bow, Nebraska. The Company maintains a savings account with Security State Bank in Ansley, Nebraska. These deposits were verified by direct confirmation from each bank. The checking and savings account balances were confirmed and reconciled to the Company's records by giving consideration to outstanding items. The Company's Annual Statement value was \$341,655.

**Reinsurance Refund Receivable** **\$ 61,206**

Company received two emails from Nebraska Farmers Mutual Reinsurance Association

stating that the Company will be refunded \$53,998 for a loss free year in 2012 and \$7,208 for a premium rate decrease for 2013. These amounts total \$61,206.

**Furniture, Fixtures, and Supplies** **\$ 6,018**

This non-ledger asset reflects the carrying value of the Company's office equipment and supplies. This amount is deducted as an asset not admitted in both the Company's 2012 Annual Statement and the examination of this report in accordance with accepted insurance accounting practices.

**Unpaid Assessments** **\$ 22,659**

The Company's Annual Statement value for customer receivables was \$22,659 as of December 31, 2012. The CPA provided a Customer Aged Receivable Summary breaking out past due premiums by 30 day increments. The total for 90 days or less past due premiums is \$22,659. This amount is moved to page 5 line 14 of the Annual Statement; "unpaid assessments levied on or after October 1<sup>st</sup> of current year (2012)". Total past due premiums greater than 90 days is \$1,118. This amount is moved to page 5 line 15 of the Annual Statement, "unpaid assessments levied before October 1<sup>st</sup> of the current year (2012)". With the \$1,118 amount greater than 90 days past due, it is also included in the not admitted section page 5 line 19 of the Annual Statement.

**Unrealized Gains (Losses)** **\$ 61,186**

This non-ledger asset reflects the difference between cost and market value of common stocks as of December 31, 2012

## **LIABILITIES**

### **Net Unpaid Losses**

**\$ 59,005**

The Company reported a gross liability for unpaid losses amounting to \$59,277 in its December 31, 2012 Annual Statement. The Company also reported reinsurance recoverable for previous years in the amount of \$272, which the Company accounted for as an asset. This recoverable is moved to page 5 line 29 of the Annual Statement, thereby reflecting a net unpaid loss of \$59,005.

### **Unearned Premium**

**\$ 490,778**

The Company reported unearned premium of \$373,420 in its December 31, 2012 Annual Statement. The unearned premium report obtained from the Company states unearned premium at \$567,184. The CPA hired to complete the Company's Annual Statement arrived at the amount of \$373,420 by taking the unearned premium from the report of \$567,184, less liability premiums and policy fees of \$52,804 and \$23,602, respectively. The CPA also deducted deferred premiums in the amount of \$117,357. The deferred premium should not be included in the Annual Statement, including gross receipts from assessments. Therefore the unearned premium amount to be reported in the Annual Statement is \$490,778, based upon this examination.

### **Interest on Borrowed Money**

**\$ 14,271**

Company has set up an interest payable liability in the amount of \$14,271, which is for interest accrued on the capital surplus note. The interest payment was approved by the Nebraska Department of Insurance on March 12, 2013.

### **Other Liabilities**

**\$ 36,380**

The Company reported various other liabilities at December 31, 2012, totaling \$62,346 in

the Annual Statement. These liabilities consisted of accounts payable of \$6,052; agent commissions payable of \$10,606; premium written for others of \$9,488; premiums collected in advance of \$25,966; income taxes payable of \$5,330; and premium taxes payable of \$4,901. Premiums collected in advance have been re-classed to income on page 3 of the 2012 Annual Statement.

**Surplus Note**

**\$ 340,000**

The Company issued a capital surplus note in the amount of \$340,000 on December 15, 2011. This capital surplus note was classed under surplus as regards to policyholder within this report.

**Surplus as Regards Policyholders**

**\$ 171,941**

Surplus as regards policyholders amounted to \$171,941 at December 31, 2012, as developed through this examination.

**INCOME**

The Company has several items incorrectly listed on the income page of the 2012 Annual Statement. The following examination changes were made to page 3, income, on the Annual Statement:

Line 2 and 3 – The stated amount on line 2, gross receipts from assessments, was \$1,077,421. The amount included policy and direct fees in the amount of \$58,850. Those fees should be included in line 3, “gross membership, cancellation and policy fees”. Line 2 was changed to \$1,018,571.

Line 4 – The Company had assessments paid in advance listed as a payable in the liabilities section of the 2012 Annual Statement. The amount of \$25,966 has been moved from

liabilities to line 4 of income, assessments paid in advance.

Line 5 & 7 – The changes above change the total assessments and fees and the net amount received from members to \$1,103,387.

Line 12 – Premiums collected for other companies (written liability insurance) was stated as a netted amount. This amount should be shown in full and as such changed from \$22,216 to \$142,818. The offset to this account is discussed in Line 23 in disbursements.

Line 13-15 – The Company included unrealized gains (\$61,186), change in unpaid losses (\$59,277), and change in unearned premium (\$9,489) in these lines of the Annual Statement. These amounts are accrual items and should not be included as income and have been removed. An additional line was created for “liability commissions collected” in the amount of \$10,489. This amount was originally included in the netted liability insurance written, line 12 above.

Based on examination findings and changes, there is a difference of \$12,970 between the total on page 4 line 31 and the total on page 5 line 12, of the 2012 Annual Statement. Due to the unreliability of the amounts within the general ledger, the CPA running accrual basis instead of cash basis, lack of insurance and accounting knowledge, and the changeover to a new system in 2013, the difference will be accepted for this examination with a recommendation in the “Accounts and Records” section that the Company address this issue.

Line 17 – The above changes change total income from \$1,260,030 to \$1,300,105.

Line 18 – Changes on the total from \$1,782,739 to \$1,822,814.

## **DISBURSEMENTS**

The Company has several items incorrectly listed on the disbursements page of the 2012 Annual Statement. The following examination changes were made to page 4, disbursements, of

the Annual Statement:

Line 1 – Due to the income changes noted above, the amount brought forward changed from \$1,782,739 to \$1,822,814.

Line 2 – The Company stated gross losses paid of \$659,879. This amount included the unpaid losses in the amount of \$59,277 and should not be included as this should be a cash amount, not accrual. The amount of gross losses paid was changed to \$600,603.

Line 5 – The change to gross losses paid changes the net losses paid from \$(37,613) to \$(96,889).

Line 21 – The Company reported reinsurance premiums paid of \$387,470. The amount that the Company should have reported is \$436,611. The change was due to a calculation error.

Line 23 – The Company netted the amount of liability insurance paid with the premium collected as income. This amount should be separated and therefore the \$125,321 should be included in this line.

Line 25 – The changes above change the total expenses from \$709,017 to \$883,479

Line 29 – The Company stated the amount of liability commissions paid as \$17,185. This amount includes liability written premium in the amount of \$9,488 and a CPA adjustment of \$306. The \$9,488 amount should not be included bringing the total liability commissions paid from \$17,185 to \$7,696.

Line 30 – The changes above change the total disbursements change from \$688,589 to \$794,286.

Line 31 – The changes above change the balance from \$1,094,150 to \$1,028,528.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Accounts and Records** – Examination changes made within the 2012 Annual Statement are primarily due to inconsistencies within the general ledger and running the business on an accrual basis. It is recommended that the Company make every effort to fully understand all ledger entries to ensure they are accurately posted, including reconciliations.

**Accounts and Records** – It is recommended that the Company should reconcile the general ledger balances for premiums and claims to subsidiary records on a monthly basis and retain the reconciliation as part of its work papers.

**Accounts and Records** – It is recommended that the general ledger unpaid claims account not be used for tracking unpaid claims, rather using the open claims report for reporting unpaid claims at year end on the Annual Statement.

**Accounts and Records** – Non-ledger and accrual adjustments made for the 2012 Annual Statement should not be entered into the 2013 ledger. It is recommended that those adjustments for 2012 and input in 2013 be reversed out of the 2013 ledger.

**Reinsurance** – It is recommended that the Company attain documentation from all sources of reinsurance recoveries along with any other documentation for income and assets per Section §44-5905 of the Nebraska Insurance Statutes.

**Custodial Agreement** – It is recommended that the Company formalize an agreement which complies with Title 210, Chapter 81, Section 3 of the Nebraska Department of Insurance Rules.

**The Insurance Center Agreement** – It is recommended that the Company attain an agreement in writing and signed with The Insurance Center as soon as possible.

## ACKNOWLEDGMENT

The courtesy and cooperation extended by the President, Bill Brush, and management personnel of the Company during the course of this examination is hereby acknowledged.

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

Respectfully submitted,



Derek J. Petersen, CFE, MCM  
Examiner in Charge  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

Derek J. Petersen, being duly sworn, states as follows:

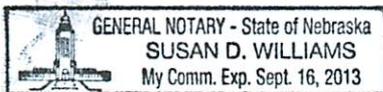
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Grange Mutual Insurance Company of Custer County.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Grange Mutual Insurance Company of Custer 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 Derek Petersen on this 19<sup>th</sup> day of July, 20 13.

(SEAL)



  
Notary Public

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









Grange Mutual Insurance Company  
of Custer County  
PO Box 246  
424 South 8<sup>th</sup>  
Broken Bow, NE 68822  
(308) 872-2100 Phone  
(308) 872-5021 Fax  
1-866-872-5010 Toll Free

I, Roland Peterson, of Broken Bow, Nebraska, make an oath and say that:

I member of the Board of Directors of Grange Mutual Insurance Company of Custer County, have received and read the Financial Examination Report from the Dept. of Insurance as of December 31, 2012.

Roland Peterson  
Board Member

State Of Nebraska )  
County of Custer ) :ss

RECEIVED

AUG 26 2013

NEBRASKA DEPARTMENT OF INSURANCE

Subscribed and Sworn to before me, on the 22 day of August, 2013

Camille A. Synak  
Notary Public



