STATE OF NEBRASKA
DEPARTMENT OF INSURANCE
NOV 06 2013
FILED

CERTIFICATION

November 6, 2013

I, Bruce R. Ramge, 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

Farmers Mutual United Insurance Company

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.

Bruce R. Ramge
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

Farmers Mutual United Insurance Company

dated as of December 31, 2012, verified under oath by the examiner-in-charge on October 9, 2013, and received by the company on October 24, 2013, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 30 day of October 2013.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

FARMERS MUTUAL UNITED INSURANCE COMPANY

as of

December 31, 2012

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Wahoo, Nebraska
September 15, 2013

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:

FARMERS MUTUAL UNITED INSURANCE COMPANY
502 North Linden
Wahoo, Nebraska 68066

(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, 2008 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 Statues.

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 provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed. 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 Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in Nebraska were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

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 examination process. The Company'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 Company were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. This included a review of workpapers prepared by Fuhrman, Smolsky, & Furey, P.C., the Company's external auditors, during the preparation of the Company's annual statements for the period under review. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

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

Effective January 1, 1986, with appropriate filings and Nebraska Department of Insurance approval, the following corporations agreed to and completed consolidation: Concordia Mutual Insurance Company, Arlington, Nebraska; Farmers Mutual Insurance Association of Dodge County, Nebraska; and Farmers Mutual Insurance Company of Saunders County, Nebraska. In accordance with the Articles of Consolidation the new entity was named Farmers Mutual United Insurance Company, Incorporated, with its principle office being 444 North Linden, Wahoo, Nebraska. Said location was the home office of the former Farmers Mutual Insurance Company of Saunders County.

On August 18, 1989, Farmers Mutual Agency Inc. was formed as a subsidiary corporation with the issuance of 5,000 shares of common stock to its parent, Farmers Mutual United Insurance Company. The Company made a $2,000 capital contribution to the newly formed agency on March 20, 1991. A further capital contribution was made by the Company in the amount of $3,000 on March 13, 1992. On January 21, 1994, at the Company's Annual Meeting, a motion was made and approved to sell a 40% stake in the agency to Pat Sullivan, an agent of the Company, upon approval of the Nebraska Department of Insurance. This measure was approved by the Nebraska Department of Insurance on March 10, 1994, leaving Farmers Mutual United Insurance Company with a 60% interest in the agency or 3,000 shares of common stock out of a total of 5,000 shares outstanding.

Effective January 1, 1995, German Farmers Insurance Company of York County was merged into Farmers Mutual United Insurance Company with the approval of the Nebraska Department of Insurance. Effective January 1, 2001, Farmers Mutual Insurance Company of Gage County was merged into the Company with the approval of the Nebraska Department of Insurance. Effective January 1, 2002, Farmers Mutual Insurance Company of Washington County was merged into the Company with the approval of the Nebraska Department of Insurance. Effective January 1, 2005, Mutual Insurance Company of Oakland, Nebraska and Douglas County Mutual Insurance Company were merged into Farmers Mutual United Insurance Company with the approval of the Nebraska Department of Insurance.

MANAGEMENT AND CONTROL

Holding Company

On November 1, 1989, the Company filed a "Form B - Insurance Holding Company System Registration Statement" with the Nebraska Department of Insurance. According to this filing, Farmers Mutual United Agency Inc. was formed by the Company on August 18, 1989, as a wholly owned subsidiary. This corporation was formed as a subsidiary insurance agency to make available to the Company's insureds sources of additional coverage that are not written by the Company itself. The agency utilizes a portion of the Company's building for which it pays monthly rent of $120. Operating expenses of the agency are paid direct by the agency.

The Company's building also houses two non-affiliated companies, Nebraska Farmers Agency and the Nebraska Farmers Mutual Reinsurance Association. Both of these non-affiliates also utilize Company personnel. Each non-affiliate has its own equipment and supplies.

Members

The Company's Articles of Incorporation state that, "the Annual meeting of the members shall be held on or before May 31st of each year as required by law, the specific date to be set by annually by the board of directors".

The Company's By-Laws state that, "every person, corporation, association or partnership desiring insurance authorized by this association may become a member by making a written application therefor upon a printed blank furnished by the association, which must contain a description of the property to be insured, be signed by the applicant, and by one member of the association recommending the same, to be presented to the Secretary-Treasurer with the required assessment as designated by the Board of Directors and when his application has been accepted and approved by the President and Secretary-Treasurer said applicant shall become a member and his insurance shall be in force". The Company's Articles of Incorporation state that, "every person, corporation, association or partnership insuring in this corporation shall be a member thereof and entitled to one vote which may be cast in person or by proxy".

Board of Directors

The Company's By-Laws state that, "the Board of Directors shall consist of not less than 9 nor more than 12 members, all of whom shall be members of the association and reside within the State of Nebraska. The Directors shall be elected at the annual meeting… each Director shall be elected for a 3 year term”.

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

Name and Residence	Principal Occupation
Matt Hannan Fremont, Nebraska	Farmer
Arnold Heyen Ceresco, Nebraska	Farmer
Steve Jacobsen Omaha, Nebraska	Farmer
Mark Johnson Oakland, Nebraska	Farmer
Kim Leif Benedict, Nebraska	Farmer
Jerry Newsham Ashland, Nebraska	President, Farmers Mutual United Insurance Company
Jerome Ostry Prague, Nebraska	Farmer
Darrell Rains Beatrice, Nebraska	Insurance Agent
Terry Rasmussen Arlington, Nebraska	Farmer
Delvin Westermann Arlington, Nebraska	Vice-President, Farmers Mutual United Insurance Company

All directors receive $200 per diem and are reimbursed for mileage at the IRS allowance rate, which was fifty-five and one-half cents per mile as of December 31, 2012, for attendance at meetings, except the President of the Company, who does not receive the per diem.

Officers

The Company's By-Laws state that, "the Board of Directors shall elect one President and one Vice-President from among its members and shall appoint and employ a Secretary-Treasurer as well as such other assistants as are deemed necessary".

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

Name	Office
Jerry Newsham	President
Delvin Westermann	Vice-President
Andy Dokulil	Secretary-Treasurer

Committees

The Company's By-Laws state that, "the President, Vice-President and Secretary-Treasurer shall constitute an executive committee who shall have the general management of the business of the association in the absence of the Board of Directors".

The following persons were serving on the executive committee at December 31, 2012:

Andy Dokulil	Jerry Newsham
Delvin Westermann	

TRANSACTIONS WITH AFFILIATES

Cost Allocation Agreement

The Company and the Farmers Mutual United Agency, Inc. entered into a cost allocation agreement executed August 2, 2000 and approved by the Nebraska Department of Insurance on August 9, 2000. Under this agreement, the Company allocates outlays that arrive from charges directly attributable to the agency directly to the agency. Rent for office space including utilities is provided to the agency at a cost of $120 per month.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the State of Nebraska only and is authorized to transact the kinds of insurance prescribed by section 44-201, subsections (5) and (18) of the Nebraska Insurance Statutes (property insurance and marine insurance).

Active production includes Saunders, Dodge, Douglas, Washington, Burt, Gage, Cuming, York, Holt, and their adjacent counties. Twenty-eight agents currently handle new business and the servicing of renewals.

Policies are written for a one-year term with premiums payable annually or semi-annually. Agents receive a one-time commission of twenty percent for new business. Renewal commissions are ten percent of net premiums written.

The Company has available to its members comprehensive personal and general liability coverages underwritten by Acceptance Casualty Insurance Company through the Nebraska Farmers Agency Company.

Fidelity Bond

The Company has a fidelity bond providing protection against dishonest or fraudulent acts committed by employees, loss of property on premises, loss of property in transit, forgery or alteration, loss of securities/financial instruments through no fault of the Company, and trading loss resulting directly or indirectly from trading securities. This bond provides the following limits:

Single Loss Limit of Liability	$250,000
Single Loss Deductible	5,000
Forgery or Alteration – Single Loss Limit of Liability	250,000
Single Loss Deductible	5,000
Securities – Single Loss Limit of Liability	250,000
Single Loss Deductible	5,000

Trading Loss – Single Loss Limit of Liability	250,000
Single Loss Deductible	5,000
Computer Systems Fraud – Single Loss Limit of Liability	250,000
Single Loss Deductible	5,000

The liability of the underwriter is unlimited in the aggregate.

Assessment Rates

Annual assessments shall be made by the Board of Directors for accrued losses and expenses and for such additional amounts as they shall estimate necessary to augment and maintain a reserve as provided by law.

The Board establishes the rates for annual assessments and also has the power to levy additional assessments whenever the annual assessments are inadequate due to severe losses during the year. After the merger of Mutual Insurance Company of Oakland (Oakland) into the Company, Oakland's rates were retained, and the Company is maintaining a separate rate schedule by region. Lower rates are charged for higher deductibles.

In 1977, the Board agreed to allow semi-annual assessments. These are computed as one-half the annual rate.

REINSURANCE

Ceded

The Company has a reinsurance agreement with the Nebraska Farmers Mutual Reinsurance Association (NFMRA) of Wahoo, Nebraska. The term of the agreement is from January 1 to December 31 and each year a new agreement is entered into. Under this agreement, NFMRA is liable for 100% of the amount, if any, by which the Company's aggregate net property losses incurred during the term of the agreement, exceed the 2012 Ultimate Retention. The Ultimate Retention is calculated based on the 2012 average insurance in force with a retention rate of $2,700 per million of the fire or wind insurance in force, whichever is greater, as of January 1, 2012.

If, prior to incurring ultimate net losses exceeding the aggregate retention, the Company incurs a reinsured loss on a single risk greater than $40,000, the reinsurer will assume 100% of the amount of that loss over the applicable excess per risk retention up to $460,000. Recoveries made under this provision greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If a company receives recoveries under this coverage but the net losses do not exceed the aggregate retention for the year, the amount recovered per risk between the Company's single risk retention and $1/8^{th}$ of 1 percent of the Company's January 1 insurance in force is to be refunded prior to March 1 of the next year.

The Company further agrees to retain the first $1,000 of each risk, each loss, as respects mobile home risks located in trailer courts. The limit of coverage is $48,000 per trailer court. Two or more trailers in one location constitute a trailer court.

The Company warrants that it will obtain pro rata facultative reinsurance on any single risk over $500,000 ($700,000 for single farm outbuildings and contents therein) or such reinsurance will be deemed to be in effect in determining the Company's ultimate net loss and the reinsurer's liability.

In case of loss of any one or more items on a covered risk involving more than one of the reinsurer's member companies, the loss payable by the reinsurer will be divided between the member companies in proportion to the share each had in the loss.

If the Company has a deficit balance (reinsurance assessments paid minus reinsurance recoveries and recoverables minus prior profit sharing resulting in a negative balance) and chooses not to continue to be a reinsured member with NFMRA, a withdrawal payment equal to

50% of the last years assessment must be paid to the reinsurer prior to February 1 following the ending effective date of the contract. This payment is not required if you merge or consolidate with a member company who continues to be a member of NFMRA. Most commercial risks are excluded from coverage under this agreement.

The Company utilizes facultative coverage available through NFMRA. NFMRA is provided this coverage through a Property Pro Rata Facultative Reinsurance Agreement placed by Guy Carpenter.

This agreement has an effective date of January 1, 2012, and allows NFMRA and its members the option to cede their excess liability. The cession is limited to five times the net retained liability and is subject to a maximum cession of $500,000 and a minimum retention of $100,000 as respects any one risk.

General

The property reinsurance contract between the Company and its members did not contain an arbitration clause, offset clause, or an errors & 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 & Procedures Manual.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	2009	2010	2011	2012
Bonds	$4,509,819	$3,392,046	$2,228,316	$1,359,857
Admitted assets	9,798,173	8,821,264	7,904,918	9,131,936
Losses	228,005	12,268	0	177,496
Total liabilities	2,524,972	1,976,069	2,072,552	2,639,838
Capital and surplus	7,273,201	6,845,195	5,832,366	6,492,098
Premiums earned	3,515,106	3,246,302	3,151,288	3,448,407
Losses incurred	1,842,742	2,947,036	3,098,843	1,804,038
Net investment income	163,155	261,467	208,468	372,670
Net income	425,372	(769,915)	(910,071)	698,174

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2012 and its transactions during the year 2012 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2012

Assets	**Assets**	**Assets Not Admitted**	**Net Admitted Assets**
Bonds	$1,359,857		$1,359,857
Common stocks	2,576,055		2,576,055
Real estate	397,913		397,913
Cash and short-term investments	4,783,342		4,783,342
Other invested assets	615,508	$615,508	
Subtotal, cash and invested assets	$9,732,675	$615,508	$9,117,167
Investment income due and accrued	8,071		8,071
Uncollected premiums and agents' balances in the course of collection	6,695		6,695
Furniture and equipment	20,112	20,112	
Rounding	3		3
Totals	$9,767,556	$635,620	$9,131,936

Liabilities, Surplus, and Other Funds

Losses	$ 177,496
Loss adjustment expenses	2,504
Commissions payable, contingent commissions, etc.	136,000
Other expenses	26,774
Taxes, licenses and fees	29,681
Unearned premiums	2,243,540
Ceded reinsurance premiums payable	23,843
Total liabilities	$2,639,838
Unassigned funds (surplus)	$6,492,098
Total capital and surplus	$6,492,098
Totals	$9,131,936

STATEMENT OF INCOME – 2012

Underwriting Income

Premiums earned	$3,448,407
Losses incurred	1,804,038
Loss adjustment expenses incurred	170,470
Other underwriting expenses incurred	1,153,421
Total underwriting deductions	$3,127,929
Net underwriting gain	$ 320,478

Investment Income

Net investment income earned	$ 101,808
Net realized capital gain	270,862
Net investment gain	$ 372,670

Other Income

Commission and adjusting income	$ 5,026
Total other income	$ 5,026
Net income	$ 698,174

CAPITAL AND SURPLUS ACCOUNT

	2009	2010	2011	2012
Capital and surplus, beginning	$6,390,239	$7,273,201	$ 6,845,195	$5,832,366
Net income	$ 425,372	$ (769,915)	$ (910,071)	$ 698,174
Change in net unrealized capital gains	329,000	97,477	(72,995)	(84,857)
Change in nonadmitted assets	22,580	16,856	(23,763)	15,980
Rounding		(3)		
Change in affiliated stock			(6,000)	6,000
Prior year policy adjustment				(565)
Prior year contingent commission				25,000
PY state income tax accrual reversal		23,500		
Accrual for PY amended tax receipts	106,010	204,079		30,435
Net change for the year	$ 882,962	$ (428,006)	$(1,012,829)	$ 659,732
Capital and surplus, ending	$7,273,201	$6,845,195	$ 5,832,366	$6,492,098

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $6,492,098, as reported in the Company's 2012 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

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:

> **Accounts and Records** – Numerous non-ledger entries are considered to obtain amounts reported in the Annual Statement. Many of these adjustments should be journalized, and the general ledger should be updated regularly to maintain accurate accounting records.
>
> **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.

<u>Safekeeping Agreements</u> – It is recommended that the Company amend its safekeeping agreements to ensure compliance with Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

Action: The safekeeping agreement with Smith Barney was in compliance with Title 210 Chapter 81 but the safekeeping agreement with TD Ameritrade has not changed since the last exam and is therefore not in compliance with Title 210, Chapter 81.

<u>NAMICO Common Stock</u> – It is recommended that the Company properly disclose the number of shares of its NAMICO common stock, and value it according to the NAIC Securities Valuation Office.

Action: The Company has complied with this recommendation.

<u>Money Market Funds</u> – It is recommended that the Company disclose money market funds in Schedule DA – Part 1(Short-term Investments) in future Annual Statements.

Action: The Company has complied with this recommendation.

<u>Certificates of Deposit</u> – It is recommended that the Company report all certificates of deposit with maturity dates greater than one year from the acquisition date in Schedule D – Part 1 (Bonds) in future Annual Statements.

Action: The Company has complied with this recommendation.

<u>Surplus Note</u> – It is recommended that the Company disclose its Surplus Note in Schedule BA – Part 1 (Other Invested Assets) in future Annual Statements.

Action: The Company has complied with this recommendation.

<u>Marble Township Note</u> – It is recommended that the Note issued to Marble Township be nonadmitted.

Action: The Company has complied with this recommendation.

<u>Outstanding Checks</u> – It is recommended that the Company report unclaimed property to the State Treasurer in accordance with *Neb. Rev. Stat. § 69-1302* and *Neb. Rev. Stat. § 69-1310*. Furthermore, in the future, the Company shall report all funds to be presumed abandoned on the Annual Statement under the caption, “Aggregate write-ins for liabilities”. It is also recommended that the Company document unclaimed property/escheatment procedures.

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.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Accounts and Records

The Company's accounting records consist of a general ledger and various subsidiary records maintained on a microcomputer system.

The Company engages a public accounting firm to perform a "Compilation Report" and complete its Annual Statement filing with the Nebraska Department of Insurance.

Information contained in the Company's records after the public accountant's adjustments appear to be adequate for the completion of its Annual Statement. Numerous non-ledger entries are considered to obtain amounts reported in the Annual Statement. It is recommended that the Company journalize these adjustments and update the general ledger regularly to maintain accurate accounting records.

Safekeeping Agreement

A review of the safekeeping agreement with TD Ameritrade noted that the agreements did not contain provisions related to safeguarding and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81. Disclosures within safekeeping agreements should comply with Chapter 81, sections a-o.

It is recommended that the Company execute a safekeeping agreement with TD Ameritrade that is in compliance with Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

Outstanding Checks

The Company had a substantial amount of outstanding checks which dated to before 12/31/2007. Due to a change in accounting systems in 2008, all outstanding checks which were dated prior to 12/31/2007 were entered into the new software with a date of 12/31/2007. As a result, the exact dates of older checks are unknown. Furthermore, the Company was unable to provide documentation of unclaimed property/escheat procedures. As of the examination valuation date, the Company reported $18,088.17 of outstanding checks as a liability included in the caption "Other Expenses" and $1,036,024.19 of outstanding checks in their bank reconciliation.

The Company is in violation of *Neb. Rev. Stat. § 69-1302* and *Neb. Rev. Stat. § 69-1310. Neb. Rev. Stat. § 69-1302(e),* states that, "any sum payable on checks certified in this state or on written instruments issued in this state on which a banking or financial organization or business association is directly liable…has been outstanding for more than five years from the date it was payable…" is presumed abandoned under the Uniform Disposition of Unclaimed Property Act. In accordance, with *Neb. Rev. Stat. § 69-1310,* the Company shall report funds presumed abandoned under the Uniform Disposition of Unclaimed Property Act to the State Treasurer. The report shall be filed before November 1 of each year as of June 30 next proceeding.

It is recommended that the Company report the $18,088.17 of unclaimed property, and any other amounts determined to be presumed abandoned as of June 30, 2013, to the State Treasurer before November 1, 2013. In the future, the Company should report all funds presumed abandoned as a write-in item on the liability page of the annual statement. It is also recommended that the Company document its unclaimed property/escheat procedures. Furthermore, these procedures should be put into practice by accurately reporting unclaimed property to the State Treasurer in compliance with *Neb. Rev. Stat. § 69-1302* and *Neb. Rev. Stat. § 69-1310*.

Reinsurance Clauses

It was noted in the review of the reinsurance contract that the property reinsurance contract between the Company and Nebraska Farmers Mutual Reinsurance Association did not contain an arbitration clause, offset clause, or an errors & 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 & Procedures Manual. It is recommended that the Company amends its property reinsurance contract to include the necessary clauses and to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices & Procedures Manual.

Cash Dividend Account

Included in the Company's cash total is $2,759.60 which is in a cash dividend account. The account was established in 2007 when the Company issued dividends to policyholders in order to avoid a large number of checks coming from the Company's operating account. The bank statement for the cash dividend account shows an ending balance as of December 31, 2012 of $4,224.41 but the 2012 year-end trial balance from the Company shows the cash dividend amount as $2,759.60. The difference between the trial balance and the ending balance from the account statement is the result of several outstanding checks and checks being reissued from the operating account as opposed to the dividend account. Documentation was not able to be provided by the Company for the reconciliation of the bank statement to the trial balance total. It is recommended that the Company keep documentation of their reconciliation of the cash dividend account in order to confirm the balance in future examinations.

Contingent Commissions

The contingent commission amount of $136,000 reported on line 4 of the liabilities page in the 2012 Annual Statement is an estimate calculated at year end. The actual payment calculation is not made until July of the following year and no documentation of the estimate calculation is preserved to support the Annual Statement amount. It is recommended that the Company retain the contingent commission estimate calculation from year-end to support the Annual Statement amount and aid in future examinations.

Unearned Premium

The unearned premium amount is reported as $2,243,540 on line 9 of the liabilities page in the 2012 Annual Statement. The unearned premium report supplied by the Company shows unearned premium at year end as $2,217,049.16 which varies from the amount reported in the annual statement by $26,490.84. A discussion with the Company found that the system that generates the reports will return different amounts based on when the report is run. It is recommended that the Company address the IT concern that the unearned premium amount may be calculated differently due to when the report is run, and not the effective date entered into the system. If this is not able to be accomplished, it is additionally recommended the Company retain the reports run at year-end and used to complete the annual statement to provide as documentation for future audits.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

> **Accounts and Records** – Numerous non-ledger entries are considered to obtain amounts reported in the Annual Statement. It is recommended that the Company journalize and update the general ledger regularly to maintain accurate accounting records.

Safekeeping Agreement – It is recommended that the Company execute a safekeeping agreement with TD Ameritrade that is in compliance with Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

Outstanding Checks – It is recommended that the Company report unclaimed property to the State Treasurer in accordance with *Neb. Rev. Stat. § 69-1302* and *Neb. Rev. Stat. § 69-1310*. Furthermore, in the future, the Company shall report all funds to be presumed abandoned on the Annual Statement under the caption, "Aggregate write-ins for liabilities". It is also recommended that the Company document unclaimed property/escheatment procedures.

Reinsurance Clauses – It is recommended that the Company amends its property reinsurance contract to include the arbitration clause, offset clause, and errors & omissions clause and to comply with SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices & Procedures Manual by including the entire agreement clause.

Cash Dividend Account – It is recommended that the Company keep documentation of their reconciliation of the cash dividend account in order to confirm the balance in future examinations.

Contingent Commissions – It is recommended that the Company retain the contingent commission estimate calculation from year-end to support the Annual Statement amount and aid in future examinations.

Unearned Premium – It is recommended that the Company address the IT concern that the unearned premium amount may be calculated differently due to when the report is run, and not the effective date entered into the system. If this is not able to be accomplished, it is additionally recommended the Company retain the reports run at year-end and used to complete the annual statement to provide as documentation for future audits.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Elizabeth Hofker, AFE and Brian Davis, Financial Examiners; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Andrea Szwanek

Andrea Szwanek, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Andrea Szwanek, 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 Farmers Mutual United 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 Farmers Mutual United 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 Szwanek
Examiner-in-Charge's Signature

Subscribed and sworn before me by Judy L Meisner on this 9th day of October, 2013

(SEAL) GENERAL NOTARY - State of Nebraska
JUDY LYNN MEISNER
My Comm. Exp. Aug. 17, 2014

Notary Public

My commission expires 8/17/2014 [date].

[illegible]

... Department of Insurance of the State of Nebraska ... the examination ...

... Department of Insurance of the State of Nebraska is accredited under the ... National Association of Insurance Commissioners Financial Regulation Standards and Accreditation ...

... examination report ... in a manner consistent with the standards and procedures ... by the Department of Insurance of the State of Nebraska.

[illegible]

GENERAL NOTARY - State of Nebraska
JUDY LYNN MEISNER
My Comm. Exp. Aug. 17, 2014

[illegible]