STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

NOV 15 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

NEBRASKA FARMERS MUTUAL REINSURANCE ASSOCIATION

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.

GREAT SEAL OF THE STATE OF NEBRASKA
MARCH 1st 1867

Bruce R. Ramge

DIRECTOR OF INSURANCE

STATE OF NEBRASKA

DEPARTMENT OF INSURANCE
Bruce R. Ramge
Director

Dave Heineman
Governor

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

NEBRASKA FARMERS MUTUAL REINSURANCE ASSOCIATION

dated as of December 31, 2012, verified under oath by the examiner-in-charge on October 9, 2013, and received by the company on November 6, 2013, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 6 day of November, 2013.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

NEBRASKA FARMERS MUTUAL REINSURANCE ASSOCIATION

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:

NEBRASKA FARMERS MUTUAL REINSURANCE ASSOCIATION
502 North Linden
Wahoo, Nebraska 68066

(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, 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 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. 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, 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 Association’s general plan of operation.

Data reflecting the Association's growth during the period under review, as developed from the Association's filed annual statements, 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 through the examination process. 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. This included a review of workpapers prepared by Fuhrman, Smolsky, & Furey, P.C., the Association's external auditors, used during the preparation of the Association'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 ASSOCIATION

HISTORY

The Association was incorporated in 1931 as an assessment association. In 1960, the Articles of Incorporation were amended to grant the Association perpetual existence. On December 30, 1985, the Articles were again amended to increase the Association's writing authority to include liability coverage.

The Association is authorized to transact all types and kinds of insurance as defined in Subsections (5) and (18) of Section 44-201 of the Nebraska Insurance Laws (property insurance and marine insurance).

MANAGEMENT AND CONTROL

Members

The Association's amended By-Laws state that, "only insurance associations or insurers approved by the Board of Directors shall be eligible to membership in this Association. Membership shall begin upon the taking effect of any reinsurance contract with this Association, and shall end on cancellation or other termination of said contract". The amended Articles of

Incorporation state that, “the annual meeting shall be held in the city or town where the principal office of the Association shall be located on the third Wednesday in January of each year. The President, upon a petition signed by four members of the Board, may designate a city or town in the State of Nebraska other than the city or town in which the principal office of the Association is located for the purpose of holding any annual or special meeting, but notice of such designation must be mailed to each member at least thirty (30) days prior to the date of such meeting. Nine (9) members shall constitute a quorum to transact business at any annual or special meeting of the Association”.

As of December 31, 2012, the Association had 14 member companies writing direct insurance coverage in Nebraska.

Surplus Note

The Association issued surplus notes to each member company and Lyle Dokulil (former Secretary-Treasurer) in an amount at or below their authorized limit. The total amount of surplus notes issued was $2,001,600 on June 1, 2005 at an interest rate of 4% per annum. The principal and/or interest can be paid only when the amount of the surplus of the Association over all liabilities is double that of the amount of the principle and/or interest then being paid. The Association has the right to make such payment when it has received the approval from the Department of Insurance. Interest payments are made in June and December each year and both payments had been made as of December 31, 2012. The surplus note is not a liability of the Association and cannot be used as a claim against it. The balance of the surplus notes at December 31, 2012 was $1,600,000.

Board of Directors

The Association's amended Articles of Incorporation state that, "seven Directors shall constitute a Board to manage the affairs of the Association, any four of whom shall constitute a quorum to transact business… The regular term of Directors shall be for three years, and shall be staggered in such manner that there are no more than three whose terms of office shall expire in any one year. Directors must be Officers or Directors of member associations or insurers. The Board of Directors shall meet each year immediately following the annual meeting of the members".

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

Name and Residence	Principal Occupation
Loree Dahl Scribner, Nebraska	Secretary-Treasurer, German Mutual Insurance Co of Dodge County
Randy Johnson Oakland, Nebraska	Agent, Farmers Mutual United Insurance Co
Doug Jones Osceola, Nebraska	President, Scandinavian Mutual Ins. Company of Polk County
Diane Norblade Axtell, Nebraska	Secretary-Treasurer, Scandinavian Mutual Insurance Co of Axtell
Kenneth Ripa Wilber, Nebraska	Secretary-Treasurer, Western United Mutual Insurance Co
Tom Sieck Pleasant Dale, Nebraska	Secretary-Treasurer, Farmers Mutual Fire Insurance of Seward County
Mike Wingert Plainview, Nebraska	Secretary-Treasurer, Northern Nebraska United Mutual Insurance Co

It was noted that the Association is not in compliance with its By-Laws. The principal occupation of one of the Directors is listed as an agent and not an Officer or Director of a member association or insurer.

The Association's amended By-Laws state that, "each Director shall receive such sum for his services as the Board of Directors shall by resolution adopt. In addition to such sum, each Director shall be reimbursed for necessary expenses incurred by him on behalf of the Association. Directors who receive an annual salary shall receive no per diem, but shall be entitled to be reimbursed only for necessary expenses". As of December 31, 2012, Directors were compensated $150 per meeting.

Officers

The Association's amended Articles of Incorporation state that, "the Officers of this Association shall consist of a President, Vice President, and Secretary-Treasurer and such other Officers as the By-Laws may provide. Such Officers shall be elected by the Board of Directors at the annual meeting held immediately following the annual meeting of the members of the Association. Vacancies may be filled at any regular or special meeting of the Board of Directors".

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

Name	**Office**
Tom Sieck	President
Diane Norblade	Vice President
Andy Dokulil	Secretary-Treasurer

Committees

The Association's amended By-Laws state that, "the President, or in his absence or inability to serve, the Vice President, and the Secretary-Treasurer shall constitute an Executive Committee which shall have the general management of the business of the Association at all times when the Board is not in session, and shall perform such other duties as may be prescribed by the Board". In 1971, the Board passed a resolution that the Executive Committee shall also serve as the Finance Committee. The Executive Committee, by Board approval, has served as the Finance Committee in each subsequent year. No formal minutes of the meetings of these committees are maintained. However, at each annual and quarterly meeting of the Board of Directors, the investment report presented is approved.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Association 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).

The Association's amended Articles of Incorporation authorize it to insure and reinsure, "(1) all types and kinds of property, casualty and marine insurance risks as defined in Subdivisions (1), (5), (6), (7), (8), (12) and (13) of Section 44-201 Revised Statutes of Nebraska 1943 as now or hereafter amended; (2) against loss or damage resulting from accident to or injury, fatal or non-fatal, suffered by an employee or other person for which the Insured covered by the original policy is liable; (3) against any hazard resulting from the ownership, operation, maintenance or use of any automobile, team, elevator, engine, tank, pipe or any vehicle or machine of any kind or description; (4) against loss or damage resulting from accident to, or injury, fatal or non-fatal, suffered by any employee or other person for which Insured is liable." Article V of the amended By-Laws limits this authorization to, "fire and lightning and extended coverage insurance on dwellings, churches, schools, and other types of non-commercial buildings, including appurtenances to the foregoing, and on non-commercial personal property in cities and villages; and on rural property, real or personal, except on growing crops, in any county in Nebraska. Tornado, windstorm, hail, and standard extended coverage insurance on dwellings, churches, schools, and other types of non-commercial buildings including appurtenances to the foregoing, and on non-commercial personal property in cities and villages; and on rural property, real or personal, except on growing crops, in any county in Nebraska".

The liability portion of business written by member companies was underwritten by Acceptance Casualty Insurance Company. This business is processed through the Nebraska Farmers Agency, a corporation wholly owned by the former Secretary-Treasurer of the Association and current employee Lyle Dokulil.

Such agency was formerly owned by the Association and sold to the Secretary-Treasurer in January of 1981. This transaction was unanimously approved by the members of the Association at a regular meeting held on September 7, 1980.

Fidelity Bond

The Association 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 Association, and trading loss resulting directly or indirectly from trading securities. This bond provides the following limits:

Single Loss Limit of Liability	$100,000
Single Loss Deductible	1,000
Forgery or Alteration – Single Loss Limit of Liability	100,000
Single Loss Deductible	1,000
Securities – Single Loss Limit of Liability	100,000
Single Loss Deductible	1,000
Trading Loss – Single Loss Limit of Liability	100,000
Single Loss Deductible	1,000

The liability of the underwriter is unlimited in the aggregate.

Guidelines set by the NAIC Financial Condition Examiners Handbook as to the suggested minimum amounts of fidelity insurance were used to determine an appropriate amount of fidelity insurance to be a minimum of $125,000. The Association currently has a $100,000 bond and it will be recommended that the Association consider raising its bond amount to the minimum of $125,000.

Assessment Rates

The Association's amended By-Laws state that, "the Board of Directors shall have power and authority to levy assessments in advance to meet expected losses and expenses of the Association, and to create, augment, and maintain a contingency fund… The Board of Directors shall, at their first meeting after the first day of each calendar year, estimate the amount required, in addition to estimated initial assessments, to meet the losses and necessary expenses of the Association for the current calendar year, and to augment and maintain the contingency funds, and shall thereupon levy an assessment in advance on the members of this Association based on the amounts reinsured, and the classification and rating of the risks reinsured, in an amount not exceeding the estimate so made". It was noted in the review of the Board of Directors meeting minutes that the establishment of rates and levy of assessment is done in the 4th quarter meeting and not the first meeting after the first day of each calendar year as noted in the amended By-Laws. It is recommended that the Association either comply with their By-Laws by establishing the rates and levying the assessment in the first meeting after the first day of each calendar year or the Association should amend their By-Laws to comply with their current procedure of establishing rates and levying assessments in their 4th quarter meeting.

The Board of Directors and members approved the 2012 premium rates for the respective base rate/retention levels as follows:

Base Option	Base Rate w/ Loss	Base Retention
Tier 1	$797	$2,700
Tier 2	809	2,700
Tier 3	821	2,700

Base Option	Base Rate w/o Loss	Base Retention
Tier 1	$917	$2,700
Tier 2	930	2,700
Tier 3	944	2,700

If a member company accepts Tier #3, there are additional Aggregate Credit Options available. These additional options are as follows:

Option	% On Retention	Premium Reduction
A	3.33%	45% of the
B	6.66	additional
C	10.00	retention amount

Each member company has its own credit/deficit balance based on its claims experience. The trailing five-year's premiums paid minus losses recovered determine a credit (positive) or deficit (negative) balance. If a member company has a 5 year loss ratio below 40%, its reinsurance premium rate is 90% of the base rate for the option chosen. If the 5 year loss ratio is between 40% and 100% its reinsurance premium is 100% of the base rate. If the 5 year loss ratio is over 100%, its reinsurance premium is 105% of the base rate and will remain there until such time that its 5 year loss ratio falls under 100%. Members are charged a rate per million of Insurance in Force based on their size. Each member pays an initial premium based on the option they choose and the rate charged. If the member goes the year without hitting their retention, they are refunded an amount of roughly 15% of their premium in a profit sharing mechanism.

Rates scheduled above are per million of fire and wind insurance in force at the beginning of the year. Member companies pay one-half of the initial assessment rate for any net increase or are refunded for any net decrease in the insurance in-force during the year.

REINSURANCE

Assumed

Under the agreements assumed from member companies for the calendar year 2012, the Association is liable for 100% of the amount by which a member's aggregate net losses incurred during the year exceeds 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.

Prior to the member incurring ultimate net losses exceeding its aggregate retention, the Association will assume 100% of the excess on a single loss greater than $40,000, up to a maximum of $460,000 ($660,000 for single farm outbuildings and contents therein). Recoveries made under this provision that are greater than recoveries available under the aggregate coverage, are deducted from subsequent aggregate payments. If the reinsured recovers under this coverage but its net losses do not exceed its aggregate retention for the year, the amount recovered per risk between the single risk retention and 1/8th of 1% of the member's January 1st insurance in force must be refunded to the Association prior to March 1 of the next year.

The members agree 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.

Most commercial risks are excluded from coverage under these assumed agreements.

Beginning in 2000, an article was added to the Association's contract requiring a withdrawal payment if the member company withdrawing has a deficit balance at the time of withdrawal. The withdrawal payment would equal 50% of the current year's assessment. This does not apply if you merge or consolidate with a member company who continues to be a member.

The Association's maximum participation in any one risk is $500,000 ($700,000 for single farm outbuildings and contents therein) less the excess per risk retention. The Association assists the member companies in obtaining facultative coverage in excess of the maximum participation limit and for excluded commercial risks written by member companies. A "Property Pro Rata Facultative Reinsurance Agreement" issued to the Association is in effect for the submission of these risks. Although the Association acts as a conduit facilitating the payment of premiums to the reinsurers and the losses to the member companies, it maintains that this reinsurance treaty is in effect between the member companies and the reinsurers, and that there is no passage of risk through the Association with regard to risks submitted thereunder. The treaty does not explicitly convey this understanding.

Ceded

The Association has in effect four layers of "Aggregate Excess" reinsurance protection against losses assumed from the fourteen member companies. These layers are as follows:

First Layer	$5,000,000 XS $3,000,000
Second Layer	$7,000,000 XS $8,000,000
Third Layer	$10,000,000 XS $15,000,000
Fourth Layer	$10,000,000 XS $25,000,000

Premiums for this coverage, by layer, follow:

First Layer	The greater of the minimum premium of $1,340,000 or 52.18% per $1,000 of average insurance liability in force. A deposit premium of $1,675,000 is payable in $418,750 quarterly installments.

Second Layer	The greater of the minimum premium of $756,000 or 29.44% per $1,000 of average insurance liability in force. A deposit premium of $756,000 is payable in $236,250 quarterly installments.
Third Layer	The greater of the minimum premium of $320,000 or 12.46% per $1,000 of average insurance liability in force. A deposit premium of $400,000 is payable in $100,000 quarterly installments.
Fourth Layer	The greater of the minimum premium of $200,000 or 7.79% per $1,000 of average insurance liability in force. A deposit premium of $250,000 is payable in $62,500 quarterly installments.

The Association warrants that it will require surplus amounts over $500,000 ($700,000 for single farm outbuildings and contents therein) any one risk be pro rata reinsured by each member company. The Association also warrants that it will require each member company to retain net for its own account an aggregate sum of losses not less than $2,167 per $1,000,000 of such member company's fire or wind insurance liability in force as of the inception of this contract. Article 15, "Notice of Loss and Loss Settlements" does not appear to require reporting of actual loss settlements. Because the agreement does not require reporting of losses on a quarterly basis, and as such, reimbursement for loss payments is not being received on at least a quarterly basis, the agreement appears to be in violation of SSAP No. 62R, paragraph 8d of the Accounting Practices & Procedures Manual which states that, "the agreement must provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period. The report of premiums and losses shall set forth the ceding entity's total loss and loss expense reserves on the policy obligations subject to the agreement, so that the respective obligations of the ceding entity and reinsurer will be recorded and reported on a basis consistent with this statement". It is recommended the agreement be amended to comply with SSAP No. 62R, paragraph 8d of the Accounting Practices & Procedures Manual and require formal reporting of losses on at least a quarterly basis.

A property pro rata facultative reinsurance agreement effective January 1, 2012 gave the Association and the Association's 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 aggregate excess reinsurance contract and property pro rata facultative reinsurance agreement contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable.

BODY OF REPORT

GROWTH

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

	2009	2010	2011	2012
Bonds	$1,516,000	$1,616,000	$ 961,000	$ 395,000
Admitted assets	3,870,914	3,601,254	4,142,883	5,000,682
Losses	287,409	100,000	1,002,177	330,545
Total liabilities	311,350	153,413	1,016,894	643,480
Capital and surplus	3,559,564	3,447,841	3,125,989	4,357,201
Premiums earned	1,354,752	1,781,004	1,979,123	1,994,104
Net investment income	19,032	(5,824)	(32,172)	(72,081)
Losses incurred	1,766,724	1,762,664	2,053,756	502,146
Net income	(542,697)	(815,922)	(247,735)	1,272,954

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Association 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	$ 395,000		$ 395,000
Cash and short-term investments	3,958,972		3,958,972
Rounding	(1)		(1)
Subtotal, cash and invested assets	$4,353,971		$4,353,971
Investment income due and accrued	1,680		1,680
Uncollected premiums and agents' balances in the course of collection	69,580		69,580
Amounts recoverable from reinsurers	554,366		554,366
Furniture and equipment	33,487	$ 33,487	
Prepaid expenses	133,750	133,750	
Excess per risk advances	21,085		21,085
Totals	$5,167,919	$167,237	$5,000,682

Liabilities, Surplus, and Other Funds

Losses	$ 330,545
Taxes, licenses and fees	3,204
Advance premium	10,310
Ceded reinsurance premiums payable	296,616
Surplus note interest payable	2,805
Total liabilities	$ 643,480
Surplus notes	$1,600,000
Unassigned funds (surplus)	2,757,201
Total capital and surplus	$4,357,201
Totals	$5,000,682

STATEMENT OF INCOME – 2012

Underwriting Income

Premiums earned	$1,994,104
Losses incurred	$ 502,146
Loss adjustment expenses incurred	48,411
Other underwriting expenses incurred	98,511
Rounding	1
Total underwriting deductions	$ 649,069
Net underwriting gain	$1,345,035

Investment Income

Net investment income earned	$ (72,081)
Net investment gain	$ (72,081)
Net income	$1,272,954

CAPITAL AND SURPLUS ACCOUNT

	2009	2010	2011	2012
Capital and surplus, beginning	$ 4,725,498	$3,559,565	$3,447,841	$3,125,989
Net income	$ (542,697)	$ (815,922)	$ (247,735)	$1,272,954
Change in nonadmitted assets	(653,236)	656,090	1,376	(132,452)
Prior year IBNR	30,000	40,000	(100,000)	100,000
Prior year adjustment		8,111	24,508	(9,291)
Rounding		(3)	(1)	1
Net change for the year	$(1,165,933)	$ (111,724)	$ (321,852)	$1,231,212
Capital and surplus, ending	$ 3,559,565	$3,447,841	$3,125,989	$4,357,201

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $2,757,201, as reported in the Association's 2012 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Association'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 Association 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 updated regularly to maintain accurate accounting records.
>
> **Action:** The Association has not complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.
>
> **Safekeeping Agreement** – It is recommended that the Association execute a safekeeping agreement with its broker in compliance with Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.
>
> **Action:** The Association has complied with this recommendation.
>
> **Certificates of Deposit** – It is recommended that the Association 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 Association has complied with this recommendation.
>
> **Money Market Fund** – It is recommended that the Association disclose the money market fund in Schedule DA – Part 1 (Short-term Investments) in future Annual Statements.
>
> **Action:** The Association has complied with this recommendation.
>
> **Losses** – It is recommended that the Association on the Annual Statement only nets the reinsurance recoverable on unpaid losses against loss reserves and that the reinsurance recoverable on paid losses be reported on page 2, line 14.1 of the Annual Statement.

Action: The Association has complied with this recommendation.

Losses – It is recommended that the Association reports the "Losses Paid in Advance" as a write-in asset and does not expense the loss until the retention has been met.

Action: The Association has complied with this recommendation.

Schedule F Presentation – It is recommended that the Association fully complete Schedule F – Parts 3-6 in future Annual Statements.

Action: The Association has not fully complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.

Ceded Reinsurance Premiums Payable – An adjustment for premium due to the Association's excess reinsurers was reported in the Annual Statement as "Reinsurance Payable on Paid Losses". This is additional premium owed the reinsurers and it is again recommended that this be reported in the herein captioned liability.

Action: The Association has complied with the recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Accounts and Records

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

The Association 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 Association'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 Association journalize these adjustments and update the general ledger regularly to maintain accurate accounting records.

Schedule F Presentation

It was noted that the Association filled out Schedule F – Parts 3-7 in its filed 2012 Annual Statement, however, the Association reported $296,616 as Ceded Reinsurance Premiums Payable on pg. 3, line 12 of the 2012 Annual Statement but nothing is noted in column 16 of Schedule F – Part 3. Also, the Association has a reinsurer that is unauthorized and there is a letter of credit but this information is not included in Schedule F – Part 5. The following required information is set out below:

1. Schedule F - Part 3 should include available information for each reinsurer participating in the contract. Column 7 should include the amount due you at year-end on member company losses you have paid. Column 9 should include the reserve amounts contained on the last loss reports received from the member companies prior to year-end. Column 15 should be the total of columns 7 and 9. Column 16 should include any premium balances owed to the reinsurers and 18 should reflect the net of columns 15 and 16. These numbers should be allocated to the reinsurers by percentage participation.

2. Schedule F – Part 4, Aging of Ceded Reinsurance, should show the aging of balances due the Association from its reinsurers.

3. Schedule F – Part 5, Provision for Unauthorized Reinsurance, should show those reinsurers that are unauthorized. Column 5 should reflect all amounts recoverable reported in column 15 of Part 3, column 7 should reflect the balance of letters of credit for these reinsurers as of the statement date, column 8 should reflect ceded balances payable as of the statement date and the net of these columns should be reflected in column 12. After consideration is given to aging, any amount due from reinsurers not covered by letters of credit should be reported in column 17 and carried over to Schedule F – Part 7, Provision for Overdue Reinsurance.

4. Schedule F – Part 6, Provision for Overdue Authorized Reinsurance, should be calculated and any required amounts carried forward to Schedule F – Part 7.

It is recommended that the Association fully complete Schedule F – Parts 3-7 in future Annual Statements.

Reinsurance Recoverables

During the review of reinsurance recoverables, the examiner was unable to tie out the Association’s reported recoverables to their claims paid reports and reinsurance receivables spreadsheets. After reviewing the claims paid reports and reinsurance receivables spreadsheets the examiner came up with the following, regarding the variance in reinsurance recoverables:

	Association's Calculation	Examiner Calculation
2008	$ 9,129.01	$ 9,129.01
2009	6,535.70	19,135.13
2010	122,273.74	125,268.88
2011	415,075.81	415,075.81
Total	$553,014.26	$568,608.83

The difference between the Association's calculation and the examiner's calculation is $14,242.83. It is recommended that the Association track their reinsurance recoverables accurately and when preparing future Annual Statements, keep documentation relating to calculation of reinsurance recoverables.

Funds Held by Company Under Reinsurance Treaties

The Association reported $10,310 on liabilities page, line 10 with the description, "Premiums advanced from reinsurer" in both 2011 and 2012. The Association's reinsurer paid the Association a cash advance in 2010 of $80,000. The Association was to hold these funds and apply the balance to the next billing. There was one withdrawal for reinsurance billings from the account in both 2010 and 2011. Since then, there has been no addition to the account or instructions to draw from it. It appears as if the $10,310 amount reported on liabilities page, line 10 of the 2012 Annual Statement should be classified as, "Funds held by company under reinsurance treaties" on liabilities page, line 13 and column 19 of Schedule F – Part 3. It is recommended that the Association report its "Premiums advanced from reinsurer" amount from liabilities page, line 10 as "Funds held by company under reinsurance treaties" on liabilities page, line 13 and also in column 19 of Schedule F – Part 3.

Compliance with By-Laws

According to the Association's By-Laws, "directors must be Officers or Directors of member associations or insurers". It was noted that the Association is not in compliance with their By-Laws since one of the Association's Board of Directors principal occupation is listed as an agent for Farmers Mutual United Insurance Company. Andy Dokulil confirmed that the Director was just an agent at Farmers Mutual United Insurance Company and held no other occupations. It is recommended that the Association comply with its By-Laws by making sure that its Directors are Officers or Directors of member associations or insurers.

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 Association journalize these adjustments and update the general ledger regularly to maintain accurate accounting records.

Assessment Rates – It is recommended that the Association either comply with their By-Laws by establishing the rates and levying the assessment in the first meeting after the first day of each calendar year or the Association should amend their By-Laws to comply with their current procedure of establishing rates and levying assessments in their 4th quarter meeting.

Fidelity Bond – It is recommended that the Association consider raising its bond amount to the suggested minimum of $125,000.

Reinsurance Reporting – It is recommended that the agreement be amended to comply with SSAP No. 62R, paragraph 8d of the Accounting Practices & Procedures Manual and require formal reporting of losses on at least a quarterly basis.

Schedule F Presentation – It is recommended that the Association fully complete Schedule F – Parts 3-7 in future Annual Statements.

Reinsurance Recoverables – It is recommended that the Association track their reinsurance recoverables accurately and when preparing future Annual Statements, keep documentation relating to calculation of reinsurance recoverables.

Funds Held by Company Under Reinsurance Treaties – It is recommended that the Association report its "Premiums advanced from reinsurer" amount from liabilities page, line 10 as "Funds held by company under reinsurance treaties" on liabilities page, line 13 and also in column 19 of Schedule F – Part 3.

Compliance with By-Laws – It is recommended that the Association comply with its By-Laws by making sure that its Directors are Officers or Directors of member associations or insurers.

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,

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