

CERTIFICATION

November 9, 2015

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

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

NOV 09 2015

FILED

Financial Examination Report of

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD

COUNTIES

as of

December 31, 2014

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. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES

dated as of December 31, 2014, verified under oath by the examiner-in-charge on September 15, 2015, and received by the company on September 28, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 22 day of October, 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES

as of

December 31, 2014



Crete, Nebraska
August 7, 2015

Honorable Bruce R. Ramage
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:

MUTUAL INSURANCE COMPANY OF SALINE AND SEWARD COUNTIES
236 County Road 2000
Crete, Nebraska 68333

(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, 2010 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2014, and includes such subsequent events and transactions as were considered pertinent to 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 Statutes.

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. 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 and election of Directors and Officers was also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the State of Nebraska was inspected and a survey was made of the Company's general plan of operation.

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 substantive examination process.

All accounts and activities of the Company were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. The assets were verified and evaluated and the liabilities were determined in order to present the statement of the Company's financial condition as of December 31, 2014.

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

The Company was organized on June 12, 1890, as an assessment fire and lightning insurance company. It was incorporated on January 27, 1892, and restricted its writings to Saline

and Seward Counties. On January 15, 1932, the Company's Articles of Incorporation were amended to allow the writing of insurance in Saline, Seward, and adjoining counties. A subsequent amendment on June 15, 1943, permitted the writing of fire and lightning, windstorm and tornado, and hail or other hazards as are authorized by statute. On April 11, 1947, the Articles were further amended to permit the writing of insurance on residence properties and contents in towns and cities with approved fire protection, and to provide that the corporate existence shall be until dissolved by law.

MANAGEMENT AND CONTROL

Members

The Company's Articles of Incorporation provide that, "any person owning property in Saline and Seward and adjoining counties, in Nebraska, may become a member of this company by complying with its Articles of Incorporation and By-Laws, and shall be entitled to all the rights and privileges appertaining thereto." The Articles of Incorporation were amended on September 21, 2011 to state that, "the annual meeting of members of this company shall be held on or before April 30th of each year. The specific date and time of the annual meeting shall be set by the Board of Directors." Directors and Officers are elected by the members to serve the Company.

Board of Directors

In an amendment to the Articles of Incorporation approved by the Nebraska Department of Insurance on December 2, 2011, it is stated that, "there shall be five Directors, a majority of whom shall constitute a quorum for the transaction of business. All of the elected Directors shall be members of the association and reside within the state of Nebraska. The Directors shall be elected at the annual meeting." This amendment further provides that, "at the annual meeting in

2012, one Director will be elected for a one year term, two Directors will be elected for a two year term, and two Directors will be elected for a three year term. Thereafter, as their term expires, each Director will be elected for a three year term.”

The following persons were serving as Directors at December 31, 2014:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Jim Krejci	Crete, Nebraska	2015
Terry Vaverka	Milford, Nebraska	2015
Ronald Vosta	Milford, Nebraska	2016
Donald Jirsa	Milford, Nebraska	2017
Diana Pomajzl	Crete, Nebraska	2017

Directors are paid \$25 for each Board meeting attended and \$50 for every Nebraska Farmers Mutual Reinsurance Association (NFMRA) or State Association of Mutual Insurance Companies (SAMIC) meetings attended.

Officers

The Articles of Incorporation state that, “the policy holders shall elect by ballot at each annual meeting from their number a President, Vice-President, Secretary and Treasurer, the last two may be the same for one year or until their successors are elected and qualified.”

The following is a listing of Officers elected and serving the Company at December 31, 2014:

<u>Name</u>	<u>Office</u>
William Stahly	President
Larry Dedic	Vice-President
Cheryl Retherford	Secretary-Treasurer

For 2014, the President was paid a \$2,000 salary and the Secretary-Treasurer was paid \$15,200.

FIDELITY BOND AND OTHER INSURANCE

A financial institutions bond issued on the Secretary-Treasurer in the amount of \$25,000 is in place to protect the Company. This bond is issued by an authorized insurer. The Company's agents are covered under an errors & omissions policy written through Nebraska Farmers Insurance Agency. This coverage provides a \$1,000,000 policy limit subject to a \$5,000 deductible. The premium is paid by the Company on behalf of its two agents.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current or continuous Certificates of Authority, the Company is licensed to transact business in the State of Nebraska.

The Company writes fire, lightning, windstorm, tornado, hail, theft and vandalism insurance coverage on farm dwellings, farm buildings, mobile agriculture equipment, county churches and schools, protected town and city dwellings and contents therein. An extended coverage endorsement is printed on the policy form and is included with all coverages. Policies are written for a five-year term and are subject to assessments as determined by the Directors. Any person owning property in Saline, Seward and adjoining counties may apply to become a member by making application for insurance and paying the annual premium currently in effect, subject to policy provisions, and terms and conditions as stated in the NFMRA contract.

REINSURANCE

During each year covered by this examination, the Company had in effect a reinsurance agreement with the NFMRA, Wahoo, Nebraska. The term of each reinsurance agreement was for a period of one year. The latest agreement was executed as of January 1, 2015.

At the time of the execution of the reinsurance agreement in effect on December 31, 2014, the Company, as a member Association, represented that it had the sum of \$75,881,618 of fire insurance in-force and \$75,881,618 of wind insurance in-force covered by this agreement.

The coverage under this agreement is as follows:

Aggregate - NFMRA is liable for 100% of the amount, if any, by which the Company's aggregate ultimate net losses incurred during the term of this contract exceed the 2014 Retention (\$2,700 per million). The Company's preliminary aggregate retention for 2014 is \$204,880.

Excess Per Risk - Prior to the Company incurring ultimate net losses exceeding their aggregate retention mentioned above, NFMRA will be liable for 100% of the excess greater than \$40,000 on a single risk up to and equal to \$460,000.00 (\$1,160,000 as respects to risks of a single farm outbuilding or contents therein). If the Company's net losses do not exceed the aggregate retention for the year, the amount recovered is to be refunded to NFMRA prior to March 1 of the following year.

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

Limit Per Risk- Single risks in excess of \$1,200,000 as respects to farm outbuildings and machinery pertaining to farmowners policies or \$500,000 for all other covered property and/or policies, any one risk shall be pro-rata reinsured by each member company.

The contract reviewed contained a standard insolvency clause, but did not contain an arbitration clause, an offset clause, or an errors and omissions clause. The contract also did not contain the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

BODY OF REPORT

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance, beginning of year	\$946,792	\$1,025,258	\$1,081,789	\$1,111,792
<u>Income</u>				
Gross receipts from assessments	\$303,742	\$ 322,119	\$ 365,938	\$ 419,637
Less return on cancellations	<u>801</u>	<u>848</u>	<u>3,950</u>	<u>1,025</u>
Net received from assessments	\$302,941	\$ 321,271	\$ 361,988	\$ 418,612
Interest on investments	8,735	7,472	6,234	5,409
Other interest	1,823	1,823	1,659	250
Liability premium	14,818	14,229	15,296	15,707
Miscellaneous	1	1,634		
Reinsurance premium refund	<u> </u>	<u> </u>	<u> </u>	<u>15,573</u>
Total income	<u>\$328,317</u>	<u>\$ 346,429</u>	<u>\$ 385,177</u>	<u>\$ 455,551</u>

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

<u>Disbursements</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Gross losses paid	\$ 165,307	\$ 133,135	\$ 165,181	\$1,293,807
Less recovered from reinsurance	<u>67,546</u>	<u>32,584</u>	<u>1,500</u>	<u>1,033,922</u>
Net losses paid	\$ 97,761	\$ 100,551	\$ 163,681	\$ 259,885
Salaries of office employees	14,261	15,084	15,333	20,466
Rent			1,200	1,200
Insurance department licenses & fees	4,909	3,804	4,004	4,484
All other taxes	2,731	2,871	3,135	3,809
Advertising, printing, and stationary	148	384	465	600
Telephone and postage	1,497	1,228	1,167	2,445
Reinsurance premiums paid	110,464	141,052	121,759	118,911
NFMRA overpayment			26,447	
Liability premiums	13,485	13,185	13,796	13,408
Dues	2,405	2,600	2,696	2,738
Miscellaneous	2,190	3,984	1,491	10,915
NFMRA special assessment	<u> </u>	<u> </u>	<u> </u>	<u>42,716</u>
Total expenses	\$ 152,090	\$ 184,192	\$ 191,493	\$ 221,692
Total disbursements	<u>\$ 249,851</u>	<u>\$ 284,744</u>	<u>\$ 355,174</u>	<u>\$ 481,577</u>
Balance, end of year	\$1,025,258	\$1,086,944	\$1,116,946	\$1,085,765
Correcting adjustment	<u> </u>	<u>(5,155)</u>	<u> </u>	<u> </u>
Adjusted balance, end of year	<u>\$1,025,258</u>	<u>\$1,081,789</u>	<u>\$1,111,792</u>	<u>\$1,085,765</u>

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2014

ASSETS

Ledger Assets

Surplus note	\$ 12,530	
Certificates of deposit	785,639	
Other cash deposited in banks	287,596	
Reinsurance Receivable	<u>13,006</u>	
Total assets		<u>\$1,098,771</u>

Assets Not Admitted

Surplus note	\$ <u>12,530</u>	
Total assets not admitted		\$ <u>12,530</u>
Total admitted assets		<u>\$1,086,241</u>

LIABILITIES AND SURPLUS

Claims reported but not adjusted	\$ 200,000	
Less reinsurance	<u>200,000</u>	
Net unpaid losses		0
Unearned premiums		207,068
Taxes, licenses, and fees payable		5,574
Liability premiums payable		<u>1,696</u>
Total liabilities		\$ 214,338
Surplus as regards members		<u>871,903</u>
Total liabilities and surplus		<u>\$1,086,241</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Surplus as regards members of \$705,380, as reported in the Company's 2014 Annual Statement, has been increased to \$871,903 as result of examination adjustments noted below:

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>
<u>Assets</u>			
Reinsurance receivable		\$ 13,006	\$ 13,006
<u>Liabilities</u>			
Reinsurance recoverable		200,000	200,000
Unearned premium	\$167,855	207,068	(39,213)
Taxes, licenses, and fees payable		5,574	(5,574)
Liability premiums payable		1,696	<u>(1,696)</u>
<u>Net Increase (Decrease) to Surplus</u>			\$166,523
Surplus as regards members, December 31, 2014, per Company			<u>705,380</u>
Surplus as regards members, December 31, 2014, per Examination			<u>\$871,903</u>

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:

Directors – It is recommended that the Company amend its Articles of Incorporation and change its election practice to comply with the Business Corporation Act.

Action: The Company has complied with this recommendation.

Other Cash Deposited in Banks – It is recommended that on future statements that the Company reports this amount (checking account) as “Other Cash Deposited in Banks”.

Action: The Company has complied with this recommendation.

Unearned Premium – It is recommended that the Company calculate unearned premiums and state that calculation on line 31 of future annual statements.

Action: The Company has complied with this recommendation.

Taxes, Licenses, and Fees – It is recommended that the Company calculates the unpaid taxes, licenses, and fees and include the balance on future annual statements.

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

Surplus Note

\$ 12,530

The Company obtained a surplus note from the NFMRA. The surplus note bears an interest rate of 4% per annum. The surplus note is not considered a liability or claim against the assets of NFRMA. The principal and/or interest can be paid only when the amount of the surplus of the reinsurance association over all liabilities is double that of the amount of the principal and/or interest then being paid. The Company agreed to buy the note in lieu of realizing substantial increases in their reinsurance rates. The amount of the surplus note was confirmed with NFMRA.

The surplus note is non-admitted in the Company’s 2014 Annual Statement in accordance with SSAP No. 41 of the NAIC Accounting Practices and Procedures Manual. SSAP No. 41, paragraph 10(b) states that, “holders of surplus notes shall value their investment in surplus notes as follows: by applying a ‘statement factor’ is equal to the total capital and surplus, including surplus notes. The ‘statement factor’ is equal to the total capital and surplus, including surplus notes, less than the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus. If ‘statement factor’ is negative, the surplus note(s) shall be carried at zero.”

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

\$7,206,699	Admitted assets (including surplus note)
<u>6,031,077</u>	Less liabilities
\$1,175,622	Total capital, surplus, and surplus note

\$7,206,699	
<u>5%</u>	of admitted assets
\$ 360,335	

Greater of \$360,335 or \$6,000,000

\$ 1,175,622
- 6,000,000
\$(4,824,378) / 1,175,622 = -4.10 statement factor

Certificates of Deposit **\$785,639**

The Company had twenty-one certificates of deposit issued by various state banks totaling \$785,639. Certificates of deposit were verified by confirmations received from the respective banks. The certificates of deposit figure includes the accumulated interest through December 31, 2014. It is recommended that in future annual statements the accumulated interest is reported on page 5, line 13, "Interest due or accrued on investments".

Other Cash Deposited in Banks **\$287,596**

Cash in bank was verified by obtaining a certification from Pinnacle Bank. This amount is the Company's sole checking account.

Reinsurance Receivable **\$ 13,006**

The Company met their aggregate retention on their 2014 reinsurance contract entitling them to recoveries on losses paid in excess of the retention. The last loss reimbursement submitted by the Company to their reinsurer was on December 4, 2014. Subsequent to that date, and prior to year-end, the Company paid an additional \$13,006 in claims but did not report a receivable asset. It is recommended that the Company establish in future annual statements an asset for any receivable amounts from reinsurers related to claims paid in the current year for which applicable reinsurance recoveries have not yet been received.

Claims Reported but not Adjusted **\$200,000**

The Company established a liability for unpaid losses amounting to \$200,000 in its December 31, 2014 Annual Statement. These unpaid losses were the estimated cost to settle the reported claims from the 2014 loss year as of December 31, 2014.

Reinsurance on Unpaid Losses**\$200,000**

The Company met their reinsurance aggregate retention amount for 2014. As a result, the outstanding losses discussed in the “Claims reported but not adjusted” subsection above will be recoverable from the Company’s reinsurer. It is recommended that the Company report any applicable reinsurance coverage on outstanding losses on page 5, line 29 of future annual statements and that the difference between outstanding losses and applicable reinsurance coverage be reported in annual statement page 5, line 30 “Net unpaid losses”.

Unearned Premiums**\$167,855**

The Company reported unearned premiums of \$167,855 in its December 31, 2014 Annual Statement. This amount was calculated by applying a 40% factor to gross assessments from members. Examiner allocated premium collections to the month collected and applied an unearned factor for each month. This resulted in an estimated unearned premium figure of \$207,068. It is recommended that the Company revise their estimation methods for calculating unearned premium in order to more accurately reflect when premiums are being collected throughout the year.

Taxes, Licenses, and Fees**\$ 5,574**

The Company did not report a premium tax liability in its Annual Statement. The liability amount reported in the 2014 State of Nebraska Annual Tax Return was \$5,140. It is again recommended that this amount be accrued as a liability for premium tax within the Annual Statement on page 5 line 34. The Company also did not report a liability for payroll taxes payable relating to December 2014 personnel salaries. The recording of payroll taxes payable is included in the recommendation.

Liability Premiums Payable

\$ 1,696

The Company failed to establish a liability for amounts due to Acceptance Casualty Insurance Company (Acceptance) for liability premiums collected but not yet remitted. The net liability premium due to Acceptance for December 2014 was \$1,695.81. Regardless of when the Acceptance invoice was received, the Company should have established a liability representing the liability premiums to be remitted, either in the amount of an invoice received or an estimated figure based on liability premiums collected in December of that year. It is recommended that the Company establish a liability for any amounts owed to Acceptance Casualty Insurance Company for liability premiums collected but not yet remitted as of year-end.

Reinsurance

In review of the Company's reinsurance structure it was noted that the Company does not have any facultative reinsurance coverage. The Company's 2014 NFMRA contract aggregate retention of \$204,880 is the only coverage limiting the amount of a large loss. The Company writes policies in less than 31 counties which, according to Nebraska Statute §44-222, would limit the amount of risk the Company is allowed to retain in any single policy to 1/8th of 1% of the inforce insurance as of the prior year-end. The Company's inforce insurance was \$151,763,236 as of December 31, 2013 which would limit their risk retention to \$189,704. It is recommended that the Company comply with Nebraska Statute §44-222 and only retain in any one risk 1/8th of 1% of its prior year-end inforce insurance.

In the 2014 Annual Statement, the Company reported amounts received from reinsurance in the income statement. It is recommended that the Company report reinsurance recoveries received on paid claims on page 4, line 4, "Less recovered from reinsurance", of future annual statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

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

Interest Due or Accrued on Investments – It is recommended that in future annual statements that the accumulated interest on certificates of deposit is reported on page 5, line 13, “Interest due or accrued on investments”.

Reinsurance Receivable – It is recommended that the Company establish in future annual statements an asset for any receivable amounts from reinsurers related to claims paid in the current year for which applicable reinsurance recoveries have not yet been received.

Reinsurance on Unpaid Losses – It is recommended that the Company report any applicable reinsurance coverage on outstanding losses on page 5, line 29, “Less reinsurance”, of future annual statements and that the difference between outstanding losses and applicable reinsurance coverage be reported in annual statement page 5, line 30 “Net unpaid losses”.

Unearned Premium – It is recommended that the Company revise their estimation methods for calculating unearned premium in order to more accurately reflect when premiums are being collected throughout the year.

Taxes, Licenses, and Fees – It is again recommended that the Company calculates the unpaid taxes, licenses, and fees and include the balance on future annual statements.

Liability Premiums Payable – It is recommended that the Company establish a liability for any amounts owed to Acceptance Casualty Insurance Company for liability premiums collected but not yet remitted as of year-end.

Single Risk Retention – It is recommended that the Company comply with Nebraska Statute §44-222 and only retain in any one risk 1/8th of 1% of its prior year-end inforce insurance.

Recoveries from Reinsurance – It is recommended that the Company report reinsurance recoveries received on paid claims on page 4, line 4, “Less recovered from reinsurance”, of future annual statements.

ACKNOWLEDGEMENT

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin Stubbs", written over a horizontal line.

Kevin Stubbs, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Kevin Stubbs, being duly sworn, states as follows:

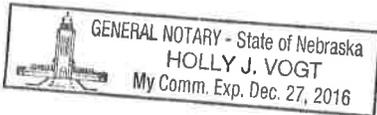
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of the **Mutual Insurance Company of Saline and Seward Counties**.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the **Mutual Insurance Company of Saline and Seward Counties** 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 Kevin Stubbs on this 15 day of September, 20 15.



(SEAL)



Notary Public

My commission expires 12/27/16 [date].