

# CERTIFICATION

May 19, 2014

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of

**NORTHERN NEBRASKA UNITED MUTUAL 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.



STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

MAY 19 2014

FILED

*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

**NORTHERN NEBRASKA UNITED MUTUAL INSURANCE COMPANY**

dated as of December 31, 2012, verified under oath by the examiner-in-charge on May 15, 2014, and received by the company on May 15, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 19 day of May, 2014.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**Northern Nebraska United Mutual Insurance Company**

**as of**

**December 31, 2012**



Plainview, Nebraska  
April 17, 2014

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:

**Northern Nebraska United Mutual Insurance Company  
601 W. Park Avenue  
Plainview, Nebraska 68769**

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

### **INTRODUCTION**

The Company was last examined as of December 31, 2007 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in 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 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, were 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 Statues. 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, 2012.

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 formed by means of the consolidation of Farmers Mutual Insurance Company of Wausa and Pierce County Farmers Mutual Insurance Company on January 1, 1996. The Nebraska Department of Insurance granted tentative approval for the consolidation September 21, 1995. The members of the then existing companies approved the consolidation on September 30, 1995 and October 7, 1995, respectively and the Nebraska Director of Insurance granted final approval on December 29, 1995 for the consolidation to be effective January 1, 1996.

### **MANAGEMENT AND CONTROL**

#### **Members**

The Company's Amended Articles of Incorporation state that, "the membership of this Company shall be every person, corporation, association or partnership insured in this Company, and they shall be entitled to one vote at any annual or special meeting of this Company in person or by proxy."

The Company's Amended By-Laws state that, "the annual meeting of the members shall be held on the first Saturday after the first Monday in February for the purpose of electing Directors and for the transaction of such other business as may come before the meeting...Special meetings of the members of the Company may be called by the President upon petition of a majority of the Board of Directors."

The Company's Amended By-Laws also state that, "a majority of the members attending a meeting, represented in person or by proxy, shall constitute a quorum at a meeting of the members."

## **Board of Directors**

The Company's Amended By-Laws state that, "the business and affairs of the corporation shall be managed by a Board of Directors consisting of nine (9) Directors. The Directors must be members in good standing of the corporation."

The By-Laws also state that, "the annual meeting of the Directors of this Company shall be held on the first Monday in February and shall be held at the same place as the annual meeting of members unless some other place is agreed upon by vote of majority of the then elected Board of Directors...At the first meeting of the members and at each annual meeting thereafter, the members shall elect 3 Directors each year. No more than 1/3 of the Directors shall be elected in any one year."

The Company's Amended By-Laws state that, "a majority of the number of Directors fixed by the By-Laws shall constitute a quorum for the transaction of any business at any meeting of the Board of Directors."

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

<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Term Expires</u></b>
Merlin Frevert	Wayne, Nebraska	2013
Lavon Johnson	Wausa, Nebraska	2013
Gene Pfanstiel	Randolph, Nebraska	2013
Gordon Fulton	Creighton, Nebraska	2014
Tim Knuth	Brunswick, Nebraska	2014
Larry Silhacek	Pierce, Nebraska	2014
Mike Jackson	Bloomfield, Nebraska	2015
Steve Kumm	Wausa, Nebraska	2015
Tim Spatz	Pierce, Nebraska	2015

Directors received \$100.00 per meeting plus 58.5¢ per mile for attending Board of Director meetings.

## **Officers**

The Company's Amended By-Laws state that, “the Officers of this corporation shall be a President, one or more Vice-Presidents (as the Board of Directors shall determine), a Secretary and a Treasurer and such other Officers and agents as may be deemed necessary by the Board of Directors. Any two or more offices may be held by the same person, except the President and Vice-President.”

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

<b><u>Name</u></b>	<b><u>Office</u></b>
Gordon Fulton	President
Larry Silhacek	Vice-President
Michael Wingert	Secretary and Treasurer

## **FIDELITY BOND AND OTHER INSURANCE**

The Company's Amended By-Laws state that, “every person elected to office, or employed in any capacity requiring receipt, management or expenditure of money or property, shall give a good and sufficient corporate surety bond, approved by the Board of Directors of this company, before entering upon the duties of the office.” At year-end 2012 the Company had a financial institution bond in the amount of \$75,000.

The Company also purchased a combined professional liability and Directors and Officers liability policy. The policy has a limit of \$2,000,000 per claim and \$2,000,000 in the aggregate for all claims for the policy period and a deductible of \$10,000 per claim.

The Company also has a \$500,000 standard workers' compensation and employers' liability policy in-force limited to \$100,000 per accident and employee.

## **TERRITORY AND PLAN OF OPERATION**

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

The Company's Amended Articles of Incorporation state that, "the purpose of this Company shall be to conduct a mutual insurance business on an assessment basis and to write insurance in conformity with the laws of the State of Nebraska and the By-Laws of this Company to cover the insurance of real and personal property and interest therein, against loss or damage from fire, lightning, windstorm, cyclones, hail and extended coverage."

The Company has authority to transact the business of insurance in the State of Nebraska only; with its present territory being the counties of Antelope, Boone, Brown, Cedar, Cherry, Cumming, Dakota, Dixon, Holt, Knox, Lincoln, Madison, Pierce, Polk, Sarpy, Stanton, Wayne, and Wheeler.

Thirteen licensed agents produce business. The agents receive a commission rate of 10% on all premiums written. The Company, as a convenience to its policyholders and agents, makes available general liability insurance coverage written by Acceptance Casualty Insurance Company and Grinnell Mutual Reinsurance Company. The Company handles the accounting on such business for premiums and agents fees. Commissions received by the Company are transferred and disbursed to the agent responsible for the production of such business.

## **REINSURANCE**

### **Ceded**

The Company is a member of the Nebraska Farmers Mutual Reinsurance Association of Wahoo, Nebraska (NFMRA), and used the reinsurance facilities of NFMRA for each year covered by this examination. Under the contract of 2012, the Company retained a liability up to an amount

equal to \$2,700 per million of the 2012 average insurance in force. After this aggregate retention was incurred, NFMRA assumed 100% of any additional liability. The Company's aggregate retention for 2012 was noted as being \$933,009.

Prior to incurring the above retention, the reinsurer assumes 100% of any insured loss on a single risk in excess of \$40,000, up to \$460,000. Recoveries made which are greater than recoveries available under the aggregate coverage are deducted from subsequent aggregate recoveries. If the Company makes recoveries under this coverage but their net losses do not exceed their aggregate retention for the year, the amount recovered per risk between the single risk retention and 1/8<sup>th</sup> of 1% of the January 1 insurance in-force is to be refunded to NFMRA prior to March 1 of the next year. This excess per risk coverage is not applicable once the ultimate net losses exceed the ultimate retention.

NFMRA agreed to participate in losses to single risks insured up to a limit of \$500,000. The contract provided that the Company was also the judge of what constitutes one risk except that in no event shall a building and its contents be considered more than one risk. The Company also had access to facultative coverage for risks exceeding this limit through NFMRA.

This contract also provided that the Company retain for its own account the first \$1,000 of each risk, each loss, as respects mobile home risks located in trailer courts. NFMRA's limit of coverage shall be \$48,000 for losses in any one-trailer court; with two or more trailers in any one location constituting a trailer court.

### **General**

The contract reviewed contained standard insolvency clause, but did not contain an arbitration clause, offset clause, or an errors and omissions clause. The contract also did not contain

the entire agreement clause as required per SSAP No. 62R, paragraph 8c of the NAIC Accounting Practices and Procedures Manual.

**BODY OF REPORT**

**FINANCIAL STATEMENTS**

The following financial statements reflect the Company's operations during the examination period and the financial condition of the Company at December 31, 2012. All amounts are based on the current examination:

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Balance, beginning of year	\$1,902,532	\$2,139,490	\$2,196,655	\$2,020,214	\$1,848,938
<b><u>Income</u></b>					
Gross receipts from assessments	\$1,507,529	\$1,480,672	\$1,569,563	\$1,665,195	\$1,900,987
Less return on cancellations	<u>28,096</u>	<u>20,415</u>	<u>21,750</u>	<u>14,888</u>	<u>29,959</u>
Net received from members	\$1,479,433	\$1,460,257	\$1,547,813	\$1,650,306	\$1,871,028
Interest on investments and dividends	82,455	72,245	66,261	58,333	44,836
Acceptance Casualty/Grinnell Mutual liability premiums	<u>151,029</u>	<u>155,527</u>	<u>157,993</u>	<u>159,939</u>	<u>166,765</u>
Total revenue	<u>\$1,712,917</u>	<u>\$1,688,028</u>	<u>\$1,772,067</u>	<u>\$1,868,578</u>	<u>\$2,082,629</u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b><u>Disbursements</u></b>					
Gross losses paid	\$ 671,518	\$ 674,382	\$1,163,521	\$1,131,039	\$ 916,306
Less discount and salvage	4,400	8,300	9,755	21,922	9,622
Less reinsurance recovered	<u>          </u>	<u>1,370</u>	<u>13,474</u>	<u>11,375</u>	<u>82,329</u>
Net losses paid	\$ 667,118	\$ 664,712	\$1,140,292	\$1,097,743	\$ 824,355
Adjusting expense	7,812	6,603	8,113	8,207	7,802
Legal expenses on losses	2,156	501	495	525	1,850
Commissions to agents	146,184	145,278	155,424	163,714	187,226
Office equipment	1,375				1,779
Investment fee/premium tax fee	25			10	170
Salaries and expenses of					
Directors and Officers	46,201	46,212	46,651	45,630	40,586
Salaries of office employees	40,720	38,074	38,109	39,027	38,856
Rent	2,118	2,118	2,118	2,118	2,118
Repair on real estate	2,484	1,771	2,223	3,813	3,923
Taxes on real estate	2,044	2,057	2,067	1,937	1,900
Insurance department licenses and fees	382	4,820	406	406	429
All other taxes	39,148	164,702	(21,039)	(13,970)	31,278
Advertising, printing and stationery	13,101	16,179	14,119	11,409	13,801
Telephone, postage and software	13,374	18,480	9,951	13,000	16,063
Reinsurance premiums paid	292,420	313,106	338,422	450,940	511,516
Building depreciation	3,038	3,038	2,815	2,251	1,910
Dues, state & national, E&O, work comp, bond	21,589	22,606	21,948	22,024	22,807
Employee fringe benefits, building insurance	23,641	25,081	28,402	31,133	34,736
Commissions paid Acceptance Casualty/Grinnell Mutual	15,190	16,149	18,579	17,623	18,691
Premiums collected on behalf of Acceptance Casualty /Grinnell Mutual	<u>135,839</u>	<u>139,378</u>	<u>139,415</u>	<u>142,316</u>	<u>148,074</u>
Total disbursements	<u>\$1,475,960</u>	<u>\$1,630,864</u>	<u>\$1,948,508</u>	<u>\$2,039,854</u>	<u>\$1,909,870</u>
Balance, end of year	<u>\$2,139,490</u>	<u>\$2,196,655</u>	<u>\$2,020,214</u>	<u>\$1,848,938</u>	<u>\$2,021,697</u>

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

**ASSETS**

**Ledger Assets**

Real estate	\$ 52,245	
Surplus note	53,557	
Common stock	21,000	
Cash in office	50	
Certificates of deposit	1,236,680	
Money market	624,245	
Checking	<u>33,920</u>	
 Total ledger assets		 <u>\$2,021,697</u>

**Non-Ledger Assets**

Furniture and supplies	\$ <u>1,307</u>	
 Total non-ledger assets		 <u>\$ 1,307</u>
 Gross assets		 <u>\$2,023,005</u>

**Assets Not Admitted**

Surplus note	\$ 53,557	
Furniture and supplies	<u>1,307</u>	
 Total assets not admitted		 <u>\$ 54,864</u>
 Total admitted assets		 <u>\$1,969,448</u>

**LIABILITIES AND SURPLUS**

Losses adjusted and unpaid	\$321,233	
Less reinsurance	<u>70,233</u>	
Net unpaid losses		\$ 251,000
Unearned premiums		754,000
NE fire, premium tax 2012, real estate tax		7,063
 Total liabilities		 <u>\$1,012,063</u>
 Surplus as regards policyholders		 <u>957,385</u>
 Total liabilities and surplus		 <u>\$1,969,448</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:

**Bonds** - It is recommended that the Company properly record agency bonds under the caption "Bonds" and mutual funds under the caption "Common Stock" in future Annual Statements

**Action:** This recommendation is no longer applicable. The Company no longer holds government agency bonds.

**Common Stock**: It is recommended that the Company properly record mutual funds under the caption "Common Stock" in future annual statements.

**Action:** The Company has complied with this recommendation.

**Other Cash Deposited in Banks**: It is recommended that the Company reconcile the cash account to the General Ledger consistently, on a monthly basis.

**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.

**Certificate of Deposit**: It is recommended that the Company report its investments on the proper caption line in its future Annual Statements.

**Action:** The Company has complied with this recommendation.

**Fidelity Bond**: It is recommended that the Company increase their fidelity coverage to \$75,000 as suggested by the NAIC Examiner's Handbook, Exhibit R.

**Action:** The Company has complied with this recommendation.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Real Estate**

**\$ 52,245**

The Company purchased two lots in Plainview, Nebraska in 1995 for \$8,500 and built a home office building on the site. Total construction expenses paid, less depreciation accumulated to December 31, 2012, totaled \$52,245.

**Surplus Note****\$ 53,557**

The surplus note issued by Nebraska Farmers Mutual Reinsurance Association (NFMRA) had a value of \$53,557 as of December 31, 2012. This item is deducted, as an asset not admitted in both the Company's 2012 Annual Statement and the financial statements of this report in accordance with Statement of Statutory Accounting Principles No. 41.

Statement of Statutory Accounting Principles No. 41, Paragraph 10(b)(b) states that, "holders of surplus notes shall value their investment in surplus notes as follows: by applying a 'statement factor' to the outstanding face amount of the capital or surplus notes. The 'statement factor' is equal to the total capital and surplus, including surplus notes, less the greater of 5% of admitted assets or \$6,000,000, divided by capital or surplus notes. If 'statement factor' is negative, the surplus note(s) shall be carried at zero."

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

\$2,023,005	Admitted asset (including surplus note)
<u>1,012,063</u>	Less liabilities
\$1,010,942	Total capital, surplus and surplus note

\$2,023,005	
<u>5%</u>	of admitted assets
\$ 100,150	

Greater of \$100,150 or \$6,000,000

\$1,010,942	
<u>- 6,000,000</u>	
\$(4,989,058)/1,010,942 = -4.94 statement factor	

**Common Stocks****\$ 21,000**

The Company has one mutual fund with Morgan Stanley with a value of \$21,000 as of December 31, 2012. This fund was verified by obtaining a direct confirmation from Morgan Stanley.

**Cash in Office**

**\$ 50**

This asset is being reflected at \$50 as of December 31, 2012 for purposes of this examination. The carrying balance of this fund has historically been \$50.

**Certificates of Deposit**

**\$1,236,680**

The Company had twenty-one Certificates of Deposit at December 31, 2012 with a reported balance of \$1,236,680. All of these certificates were verified by confirmations received from the issuing depositories or brokers.

**Money Market Accounts**

**\$ 624,245**

The Company had three money market accounts in the amount of \$624,245. All of these accounts were verified by direct confirmation received from the issuing depositories.

**Checking**

**\$ 33,920**

The Company maintains a checking account in a FDIC insured state bank. The balance of this account was unable to be verified by direct confirmation from the bank.

The Company provided the cash reconciliation for December 31, 2012 which was actually as of December 7, instead of December 31. Reconciliation for January 31, 2013 was then obtained. The reconciling date for the January 31, 2013 reconciliation is January 4, 2013. This reconciliation was used to reconcile the December 31, 2012 balance.

It is recommended that the Company reconcile the cash account to the General Ledger at month-end.

**Furniture and Equipment**

**\$ 1,307**

This asset reflects the carrying value of the Company's office equipment and supplies. The total of these items is deducted, as an asset not admitted in both the Company's 2012 Annual

Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

**Net Unpaid Losses** **\$ 251,000**

The Company reported a gross liability for unpaid losses amounting to \$321,233 in its December 31, 2012 Annual Statement. The Company also reported reinsurance recoverables for 2011 in the amount of \$70,233, reflecting a net unpaid loss of \$251,000. The Company reached their retention limit for 2011.

**Unearned Premiums** **\$ 754,000**

The Company reported unearned premiums of \$754,000 in its December 31, 2012 Annual Statement. Amounts reported are system generated and represent the unearned portion of each policy based on the remaining policy days on each policy at December 31, 2012.

**NE Fire, Premium Tax 2012, Real Estate Tax** **\$ 7,063**

This liability was composed of Nebraska Fire Tax, Nebraska Premium Tax, and Real Estate Tax. The above listed amount represents actual taxes, which were incurred during the year 2012 and paid during 2013. The amount was consistent with prior years and will be accepted for the purposes of this examination.

**Surplus as Regards Policyholders** **\$ 957,385**

Policyholder's surplus, as determined by this examination, amounted to \$957,385 at December 31, 2012.

**Documentation Maintenance**

The Company did not maintain the complete report showing the calculated unearned premiums by policy, but rather only retained the last page of the report. The Company also could

not provide documentation used to report losses adjusted and unpaid. Documentation was provided for the 2012 portion of the liability, but not for the 2011 portion.

The Company is not compliant with Nebraska Insurance Code 44-5905(b)(i)(A) which states that, “every company or person subject to the Insurers Examination Act shall retain all books, records, accounts, papers, documents, and computer or other recordings relating to the property, assets, financial accounts, and business of such company or person in a manner that permits examination of such books, records, accounts, papers, documents, and computer or other recordings for five years, or until the period of time in which the transaction took place has undergone a financial examination by the Director, whichever is later, following the completion of a transaction relating to the property, assets, financial accounts, and business of such company or person.”

It is recommended that Company maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A).

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Checking** – It is recommended that the Company reconcile the cash account to the General Ledger at month-end.

**Documentation Maintenance** – It is recommended that Company maintain documentation in compliance with Nebraska Insurance Statute 44-5905(b)(i)(A).

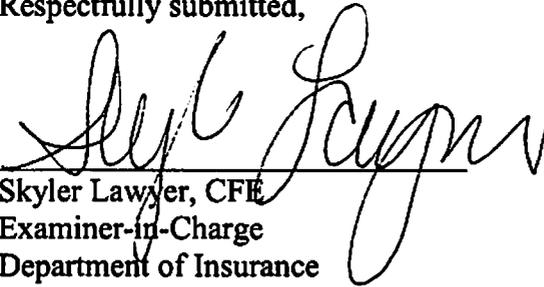
**Reinsurance Clauses** – It is recommended that the Company amend its property reinsurance contract to include an arbitration clause, an offset clause, and an errors and omissions clause. It is also recommended that the Company include an entire agreement clause to comply with SSAP No. 62R, paragraph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

**ACKNOWLEDGMENT**

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

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

Respectfully submitted,



Skyler Lawyer, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska

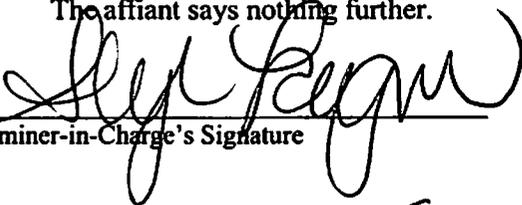
State of Nebraska,

County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

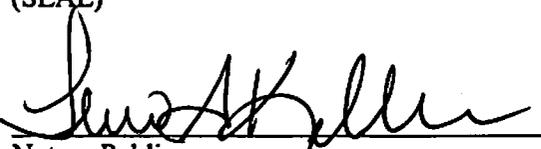
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Northern Nebraska United Mutual Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Northern Nebraska United Mutual 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.

  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 15<sup>th</sup> day of May, 2014.



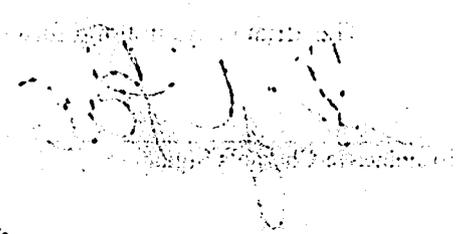
(SEAL)  
  
Notary Public

My commission expires December 24, 2017 [date].

State of Missouri  
Department of Justice  
Attorney General

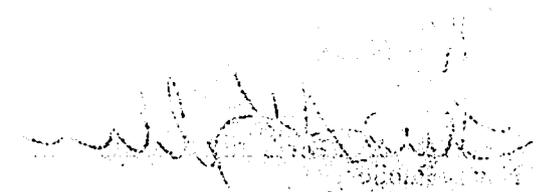
As follows:

I have advised the Board of Directors of the State of Missouri of the results of my investigation into the activities of the Board of Directors of the State of Missouri. The Board of Directors of the State of Missouri is a public body and its activities are subject to public scrutiny. I have reviewed the records of the Board of Directors and have found that the Board of Directors has acted in a manner that is consistent with the public interest. I have also reviewed the records of the Board of Directors and have found that the Board of Directors has acted in a manner that is consistent with the public interest.



Terri A. Keller

TERRI A. KELLER  
Attorney General  
State of Missouri  
1000 North Grand  
St. Louis, MO 63102



Terri A. Keller