

JUL 05 2021

FILED

# CERTIFICATION

July 5, 2021

I, Eric Dunning, 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

**CLAY COUNTY MUTUAL INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2020**

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.



  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**CLAY COUNTY MUTUAL INSURANCE COMPANY**

**208 WEST FAIRFIELD**

**CLAY CENTER, NEBRASKA 68933**

dated as of December 31, 2020, verified under oath by the examiner-in-charge on  
June 24, 2021, and received by the company on June 24, 2021, has been adopted  
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 25<sup>th</sup> day of June 2021.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "Justin C. Schrader", is written over a horizontal line.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**CLAY COUNTY MUTUAL INSURANCE COMPANY**

**as of**

**December 31, 2020**



Lincoln, Nebraska  
May 18, 2021

Honorable Eric Dunning  
Director of Insurance  
Nebraska Department of Insurance  
1526 K Street, Suite 200  
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:

**CLAY COUNTY MUTUAL INSURANCE COMPANY**  
**208 West Fairfield**  
**Clay Center, Nebraska 68933**

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

**INTRODUCTION**

The State of Nebraska last examined the Company as of December 31, 2015. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2020 and 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**

The Nebraska Department of Insurance conducted this examination pursuant to and in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes.

The Nebraska Department of Insurance made a general review 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 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, 2020.

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 in November 1891 as an assessment fire and lightning association. The Articles of Incorporation were amended in December of 1962 to provide that the kinds of insurance to be written shall be fixed by the By-Laws. The By-Laws were amended in April of 1943, to include wind and hail insurance, and again in January of 1950, to include the perils included under extended coverage insurance. The By-Laws were amended in 2003 to remove the stipulation that Board members may not serve for more than three (3) consecutive 3-year terms. The Articles of Incorporation provide that the Company shall have perpetual existence unless sooner dissolved by the State or by action of the Company.

### **MANAGEMENT AND CONTROL**

#### **Members**

Section 3 of the Company's By-Laws states, "every person, corporation, partnership, or entity desiring insurance authorized by this Company may become a Member by making a written application..."

#### **Board of Directors**

Section 1 of the Company's By-Laws provides that, "the Board of Directors of the organization shall consist of not more than seven (7) Members, all of whom shall be Members of the Company and shall reside in the State of Nebraska. The Directors shall be elected at the annual meeting for a three (3) year term." The Board will manage the affairs of the Company, and a majority shall constitute a quorum to transact business.

The following persons were serving as Directors at December 31, 2020:

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Gary Briggs	Grand Island, Nebraska	2021
Bob Swanson	Clay Center, Nebraska	2021
Darrell Kluver	Clay Center, Nebraska	2022
Calvin Farrell	Saronville, Nebraska	2023
Dennis Shuck	Edgar, Nebraska	2023

Directors receive \$300 per diem plus mileage at the rate set by the Federal government for each meeting attended.

### **Officers**

Section 2 of the Company’s By-Laws states, “the Board of Directors shall elect one President and one Vice-President from among its Members and shall appoint and employ a Secretary-Treasurer/General Manager...” Each Officer shall serve for a term of 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, 2020:

<u>Name</u>	<u>Office</u>
Darrell Kluver	President
Dennis Schuck	Vice President
L. Wayne Johnson	Secretary and Treasurer

### **FIDELITY BOND AND OTHER INSURANCE**

The Company has a fidelity bond providing coverage in the amount of \$250,000 on the Secretary-Treasurer. This bond was issued by an authorized insurer.

Directors and Officers are protected under a combined Professional Liability and Directors and Officers Liability policy providing a \$500,000 limit on each claim and in the aggregate, subject to a \$10,000 deductible on each.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in the State of Nebraska only. The Company writes business in the following counties: Clay, Adams, Antelope, Boone, Buffalo, Cass, Fillmore, Franklin, Gage, Hall, Hamilton, Harlan, Howard, Jefferson, Lancaster, Lincoln, Merrick, Nance, Nuckolls, Platte, Polk, Richardson, Sarpy, Saunders, Seward, Thayer, Webster, York, Butler, Custer, Dawson, Douglas, Furnas, Kearney, Loup, Phelps, Red Willow, Sherman, and Valley. In addition to the Secretary-Treasurer, the Company has 23 agents producing and conserving business. Agents receive a commission of 20% of the first year premiums, and 15% on all additions, rewrites, and renewals collected. The Company writes three-year policies.

The Company issues policies providing fire, lightning, and extended coverage insurance on detached farm, city, or village dwellings, barns and other buildings, and upon farm machinery and equipment, livestock, grain, and hay.

## **REINSURANCE**

### **Ceded**

The Company is a member of the Grinnell Mutual Reinsurance Company (Grinnell) and used the reinsurance facilities of Grinnell for each year covered by this examination. Coverage applies to all policy forms and endorsements issued by the Company once they are filed and accepted by Grinnell.

The Property Per Risk Excess of Loss coverage for 2020 has the Company's individual per risk retention at \$150,000. For the first layer, Grinnell is liable for losses in excess of the retention, up to a limit of \$1,000,000. For the second layer, Grinnell is liable up to a limit of \$4,000,000. For the third layer, Grinnell is liable for 100% in excess of \$5,000,000 for each loss with maximum recovery of \$15,000,000 per risk. Any Risk that exceeds a Total Insured Value



of \$20,000,000 requires facultative coverage, and a separate application must be made to the Reinsurer for facultative coverage.

The Property Aggregate Excess of Loss coverage for 2020 has the Company’s aggregate net loss retention at \$500,000. Grinnell is liable for all aggregate losses in excess of this retention.

**General**

The reviewed contract contained a standard insolvency clause, an arbitration clause, an offset clause, and an errors and omissions clause. The contract also contained 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 statement of assets and liabilities, together with the accompanying statement of income and disbursements, reflects the financial condition of the Company at December 31, 2020. All amounts are based on the findings of the current examination:

**STATEMENT OF INCOME AND DISBURSEMENTS**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Balance, beginning of year	\$1,122,698	\$1,192,034	\$1,135,592	\$1,188,080	\$ 688,888
<b><u>Income</u></b>					
Gross receipts from assessments	\$1,824,948	\$1,846,806	\$1,486,655	\$1,363,856	\$1,575,795
Gross membership, cancellation and policy fees	<u>2,843</u>	<u>2,846</u>	<u>2,753</u>	<u>2,903</u>	<u>2,188</u>
Net received from members	\$1,827,791	\$1,849,652	\$1,489,408	\$1,366,759	\$1,577,983
Interest on investments	13,079	33,631	45,402	32,643	32,077
Other interest	2,134	1,640	4,102	3,733	8
Liability premiums	148,824	153,313	151,592	130,215	106,978

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Commissions			\$ 13,525	\$ 20,785	\$ 20,067
PPP loan forgiveness					39,900
Reinsurance contingency dividend					13,797
Gain (loss) on investments			29,319	(7,784)	
Other		95	4,417	1	2,500
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total income	\$1,991,828	\$2,038,331	\$1,737,765	\$1,546,352	\$1,793,310
Gross losses paid	\$ 839,809	\$ 835,017	\$ 443,768	\$ 776,292	\$ 595,362
Less discount and salvage	37,600	5,850	3,500		500
Less reinsurance recovered	<u>94,791</u>	<u>19,893</u>	<u>46,027</u>	<u>7,250</u>	<u>104,080</u>
Net losses paid	\$ 707,418	\$ 809,274	\$ 394,241	\$ 769,042	\$ 490,782
Adjusting expense	50,487	55,437	52,372	41,549	26,074
Legal and accounting	8,649	9,065	1,887	16,643	10,554
Commissions to agents	286,951	290,256	238,292	231,093	265,860
Expenses of agents	24,699	27,276	22,235	24,190	18,510
Salaries and expenses of Directors and Officers	85,568	83,397	80,501	81,121	72,862
Salaries of office employees	41,002	39,464	39,380	87,500	100,409
Insurance	7,549	8,777	7,975	7,867	13,397
Repair on real estate	208	737	1,357	1,410	1,697
Taxes on real estate	1,128	836	756	1,038	1,222
Insurance department licenses & fees	26,223	28,046	19,518	17,099	15,059
All other taxes	13,823	14,313	14,347	26,265	21,865
Advertising, printing & stationary	74,139	65,937	74,816	62,171	79,096
Telephone & postage	13,354	13,345	13,430	14,455	13,580
Reinsurance premiums paid	343,594	410,806	492,965	463,245	417,749
Liability premiums	172,907	178,346	156,206	157,104	131,134
Travel & meetings	39,209	41,580	36,875	26,134	8,694
Employee retirement & expense	9,115	11,198	11,566	12,644	13,423
Depreciation	2,569	2,643	2,643	2,626	2,510
Equipment purchases	<u>13,900</u>	<u>4,040</u>	<u>23,915</u>	<u>2,348</u>	<u>3,212</u>
Total disbursements	\$1,922,492	\$2,094,773	\$1,685,277	\$2,045,544	\$1,707,689
Balance, end of year	<u>\$1,192,034</u>	<u>\$1,135,592</u>	<u>\$1,188,080</u>	<u>\$ 688,888</u>	<u>\$ 774,509</u>

**STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2020**

**ASSETS**

**Ledger Assets**

Real estate	\$ 28,060	
Common stock	516,242	
Cash deposited in banks	<u>230,207</u>	
Total ledger assets		<u>\$774,509</u>

**Non-Ledger Assets**

Furniture	\$ 38,675	
Unrealized gain	<u>118,309</u>	
Total non-ledger assets		<u>\$156,984</u>

**Assets Not Admitted**

Furniture	<u>\$ 38,675</u>	
Total assets not admitted		<u>\$ 38,675</u>
Total admitted assets		<u><u>\$892,818</u></u>

**LIABILITIES AND SURPLUS**

Amount of losses adjusted and unpaid		\$246,207
Less reinsurance		<u>181,407</u>
Net unpaid losses		\$ 64,800
Unearned premiums		467,864
Accounts payable		45,658
Premium tax payable		<u>6,457</u>
Total liabilities		<u>\$584,779</u>
Surplus as regards Members		<u>\$308,039</u>
Total liabilities and surplus		<u><u>\$892,818</u></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:

**Unclaimed Property** – It is recommended that the Company report and deliver outstanding checks over five (5) years old to the Nebraska State Treasurer in accordance with Sections 69 of the Unclaimed Property Act.

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

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Real Estate** **\$ 28,060**

The Company's Home Office is located in Clay Center, Nebraska. The site was purchased in 1987 at a cost of \$36,500. Various capital improvements have been made since the purchase of real estate. Amortized cost after depreciation at December 31, 2020 was \$28,060.

### **Common Stocks** **\$516,242**

The Company's common stock portfolio consisted of mutual funds, NAMIC stock, and a fixed income fund invested with HighTower Securities. The statement was obtained and tied out to the Annual Statement.

### **Cash Deposited in Banks** **\$230,207**

This asset consisted of a standard checking account and a cash fund invested with HighTower Securities. The value was verified by obtaining a direct confirmation from the banks. The amount indicated thereon for the checking account was reconciled to the Company's records as of December 31, 2020, by giving consideration to outstanding checks.

### **Furniture and Supplies** **\$ 38,675**

The non-ledger amount of \$38,675 reflects the depreciated cost of the Company's office equipment. This item is deducted as an asset not admitted in both the Company's 2020 Annual

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

**Unrealized Gains (Losses)** **\$118,309**

This non-ledger asset reflects the difference between cost and market value of common stocks as of December 31, 2020. This amount was verified through review of the Company's investment statements.

**Net Unpaid Losses** **\$ 64,800**

The Company established a liability for losses adjusted and unpaid in the amount of \$246,207. The Company also reported reinsurance recoverable in the amount of \$181,407, reflecting a net unpaid loss of \$64,800.

**Unearned Premiums** **\$467,874**

The Company reported unearned premiums of \$467,874 in its December 31, 2020 Annual Statement. The amount was calculated by applying a 30% factor to the written premiums. It is recommended that the Company use the unearned premium calculated in the computer system with unearned factors based on the policy effective date. If the Company prefers a flat percentage, a 40% factor would be more acceptable.

**Accounts Payable** **\$ 45,658**

The Company reported an accounts payable liability of \$45,658 in its December 31, 2020 Annual Statement. This amount consists of unpaid, but not overdue, bills of the Company. The vast majority of that is due to the Company's reinsurer, Grinnell. All amounts due were paid in 2021.

**Premium Tax Payable**

**\$ 6,457**

The Company reported a premium tax liability of \$6,457 in its December 31, 2020 Annual Statement.

**Custodial Agreement**

The Company does not have a custodial agreement in place with Hightower Securities that protects the Company and its policyholders as per Title 210, Chapter 81. It is recommended that the Company obtain a custodial agreement with Hightower Securities which complies with the Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

**Investment Policy**

The Company's Investment Policy dictates that the maximum holding for cash is 20%, minimum for fixed income is 40%, and maximum for equities is 50%. The Company currently holds 62.5% of the investment portfolio in equities, 10.5% in fixed income, and 27% in cash. It is recommended that the company come into compliance with its investment policy or update the policy to allow for the current investments.

**SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Unearned Premiums**– It is recommended that the Company use the unearned premium calculated in the computer system with unearned factors based on the policy effective date. If the Company prefers a flat percentage, a 40% factor would be more acceptable.

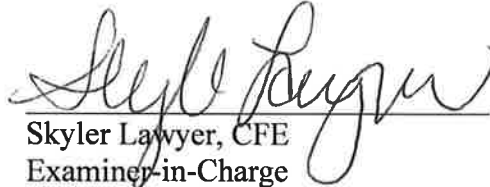
**Custodial Agreement** – It is recommended that the Company obtain a custodial agreement with Hightower Securities which complies with the Nebraska Department of Insurance Rules and Regulations, Title 210, Chapter 81.

**Investment Policy** – It is recommended that the Company come into compliance with its investment policy or update the policy to allow for the current investments.

**ACKNOWLEDGMENT**

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Skyler Lawyer".

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 Clay County 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 the Clay County 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.

*[Signature]*  
Examiner-in-Charge's Signature

Subscribed and sworn before me by *Skyler Lawyer* on this 24<sup>th</sup> day of June, 2021.



(SEAL)

*Shelly G. Storie*  
Notary Public

My commission expires 1/16/24 [date].