CERTIFICATION

February 12, 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

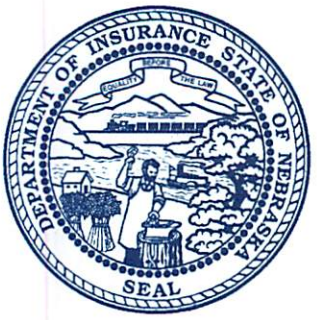
Examination of Financial Condition

Clay County Mutual Insurance Company
as of

December 31, 2011

and is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramge
DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

CLAY COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2011

Clay Center, Nebraska
January 17, 2013

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, NE 68508

Dear Sir:

Pursuant to your instructions 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 Company was last examined as of December 31, 2006 by examiners from the Nebraska Department of Insurance. The current financial condition examination covered the intervening period to and including the close of business on December 31, 2011, and included such subsequent transactions as were deemed pertinent to this report. The State of Nebraska participated in the examination and assisted in preparation of this report.

SCOPE OF EXAMINATION

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 Articles of Incorporation and By-Laws were reviewed. The minutes of the meetings of the Members and the Board of Directors for the five-year period under review were read and noted. The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Income and disbursement items were checked in sufficient detail to assure proper handling. Annual Statement items were checked to the Company's records. Reinsurance facilities were reviewed. The assets were evaluated and verified and the liabilities determined so as to present herein a statement of the Company's financial condition as of December 31, 2011.

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 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

Any person owning a farm or other property may become a member of this Company by making application for insurance and on payment of the required premium and complying with its By-Laws.

Board of Directors

The Articles of Incorporation and By-Laws state that, "the Board of Directors of the organization shall consist of not more than seven (7) members." The Board will manage the affairs of the Company, and a majority shall constitute a quorum to transact business. The regular term of the Directors shall be for three years. The following persons were serving as directors at December 31, 2011:

Name	Address	Term Expires
Mike Anderson	Clay Center, NE	2014
Darrell Kluver	Clay Center, NE	2014
Gary Briggs	Fairfield, NE	2013
Bob Swanson	Clay Center, NE	2013
Calvin Ferrell	Saronville, NE	2012
Dennis Shuck	Edgar, NE	2012

Officers

The Articles of Incorporation and By-Laws state, "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. Officers serving at December 31, 2011, were as follows:

Name	Office
Darrell Kluver	President
Dennis Shuck	Vice President
L. Wayne Johnson	Secretary-Treasurer

CORPORATE RECORDS

Minutes of the meetings of the Members and of the Board of Directors for the period covered by this examination were reviewed. Said minutes appeared complete and were properly attended.

The By-Laws state that, "the Executive Committee shall consist of the President, Vice-President, and Secretary-Treasurer/General Manager." No meeting minutes were taken. It is again recommended that the Company record minutes of meetings of the Executive Committee.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected up to $250,000 by a Commercial Blanket Bond.

Other insurance policies protecting the Company's interests include:

1. Professional Liability and Directors and Officers Liability Insurance Policy
   Liability Limit: $500,000 each claim and aggregate
   Per Claim Deductible: $10,000

2. Surplus Lines Policy
   Liability Limit: $500,000 each claim and aggregate
   Per Claim Deductible: $10,000

3. Insurance Agents and Brokers Professional Liability Insurance
   Liability Limit: $1,000,000 each claim and aggregate
   Per Claim Deductible: $2,500

4. Business Automobile Policy

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 33 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

The Company is a member of the Grinnell Mutual Reinsurance Company of Grinnell, Iowa. Under the contract for 2011, the reinsurer agreed to indemnify the Company for 100% of their aggregate net loss in excess of $441,639 and limited the Company's liability on an individual occurrence of loss to $125,000.

The contract provides that loss amounts exceeding $1,000,000 for livestock, poultry or horse operations, commercial and public property, farm outbuildings, and dwellings would not be

considered in determining the aggregate net loss. Exposures that exceeded these limits can be covered under the facultative reinsurance provisions contained in the contract.

ACCOUNTING RECORDS

The Company maintains its general ledger on a proprietary, computerized accounting system. An independent public accountant compiles the accounting records of the Company for presentation to the Board of Directors and the Members. The public accountant also prepares the Annual Statement filed with the Nebraska Insurance Department. The office secretary is responsible for posting all cash policy accounting items. Detailed investment accounting records are maintained by the public accountant. The public accountant summarizes all investment transactions on a monthly basis and prepares journal entries, which are then posted to the general ledger by the office secretary. Payroll entries are handled by the office secretary utilizing the proprietary accounting system.

The Statement of Income and Disbursements as shown in the required Annual Statement blank is based upon a strict cash accounting format with accrual items shown only on the balance sheet. For the accrual items that are included in the Annual Statement, the Company and the public accountant maintain records which corroborate these amounts.

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, 2011:

STATEMENT OF INCOME AND DISBURSEMENTS

	2007	2008	2009	2010	2011
Balance, beginning of year	$484,264	$384,940	$ 343,943	$ 367,250	$ 582,074
Income					
Gross receipts from assessments	$794,992	$888,551	$ 953,466	$ 999,437	$1,031,416
Gross membership, cancellation & policy fees	46,426	45,183	45,436	43,401	41,784
Net received from members	$841,418	$933,734	$ 998,902	$1,042,838	$1,073,200
Interest on investments and dividends	21,497	5,278	4,243	3,742	4,102
Other interest	2,037	60	110	398	4,501
Borrowed money			30,000		
Other insurance premiums	163,555	157,537	147,530	166,778	159,872
Insurance premium cost	(158,619)	(160,551)	(153,860)	(165,605)	(166,003)
Gain (loss) on investments	1,536	(23,252)			
Other		569	2,082	41	
Needed to balance	(252)				
Total income	$871,172	$913,375	$1,029,007	$1,048,192	$1,075,672

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

Disbursements	2007	2008	2009	2010	2011
Gross losses paid	$465,011	$418,261	$ 526,870	$324,256	$ 488,346
Less discount and salvage	1,263	5,100		8,640	755
Less reinsurance recovered		9,109	134,600	61,136	28,077
Net losses paid	$463,748	$404,052	$ 392,270	$254,480	$ 459,514
Adjusting expense	36,487	37,438	39,124	37,194	41,949
Legal expenses on losses	12,175	8,120	5,887	6,597	6,575
Commissions to agents	125,073	141,732	150,754	160,200	165,622
Expenses of agents	22,501	27,101	31,015	28,564	27,382
Salaries & expenses of Directors & Officers	51,155	53,646	54,470	55,681	60,588
Salaries of office employees	26,128	27,408	36,864	29,322	34,309
Repairs on real estate				7,350	
Taxes on real estate	1,305	1,289	1,245	1,226	1,204
Insurance Department licenses and fees	10,363	9,390	11,846	12,353	12,670
All other taxes	10,309	16,388	6,830	10,913	11,808
Advertising, printing and stationery	59,162	56,519	58,462	53,974	66,451
Telephone, postage and utilities	9,907	10,502	11,965	13,405	13,559
Reinsurance premiums paid	95,746	110,452	126,123	104,334	111,567
Interest on borrowed money			307		
Insurance	7,430	7,062	6,652	6,468	6,630
Depreciation	1,554	1,708	1,863	1,863	1,958
Travel & meetings	19,556	28,334	28,500	26,611	24,289
Employee expense	17,897	14,585	14,605	15,755	17,299
Borrowed money repaid			30,000		
Other disbursements		(1,354)	(6,508)	7,078	(282)
FF&E purchases			2,976		1,687
Total disbursements	$970,496	$954,372	$1,005,700	$833,368	$1,064,779
Balance, end of year	$384,940	$343,943	$ 367,250	$582,074	$ 592,967

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2011

ASSETS

Ledger Assets		
Real estate	$ 40,417	
Common stocks	284,297	
Certificates of deposit	122,276	
Cash deposited in banks	145,977	
Total ledger assets		$592,967
Non-Ledger Assets		
Furniture, fixtures, and supplies	$ 4,426	
Unrealized gains (losses)	(28,090)	
Total non-ledger assets		$ (23,664)
Gross assets		$569,303
Assets Not Admitted		
Furniture, fixtures, and supplies	$ 4,426	
Non-admitted common stock	6,661	
Total assets not admitted		$ 11,087
Total admitted assets		$558,216

LIABILITIES AND SURPLUS

Unpaid losses adjusted	$133,525	
Less reinsurance	127,808	
Net unpaid losses		$ 5,717
Unearned premiums		477,022
Accounts payable		35,067
Taxes, licenses, and fees		3,423
Total liabilities		$521,229
Surplus as regards policyholders		36,987
Total liabilities and surplus		$558,216

ASSETS

Real Estate **$ 40,417**

The Company's Home Office is located in Clay Center, Nebraska. The site was purchased in 1987 at a cost of $36,550. Various capital improvements have been made since the purchase of real estate. Capital improvements during this examination period included $4,640 in 2008 for a new office sign, $2,977 in 2009 office equipment and a snow blower, and $6,444 in 2011 for laptops and a heat pump. Amortized cost after depreciation at December 31, 2011 was $40,417.

Common Stocks **$284,297**

The Company's common stock portfolio consisted of investments in two common stock issues and six mutual funds. The common stock certificates and mutual fund statement were obtained and tied out to the Annual Statement.

Certificates of Deposit **$122,276**

The Company held one certificate of deposit in a Nebraska bank amounting to $122,276.

Cash Deposited in Banks **$145,977**

At December 31, 2011, cash consisted of the following:

Checking Account First Bank and Trust	$ 82,935
Money Market Account at First Bank and Trust	53,702
Brokerage Account with Smith Barney	9,340
Total	$145,977

The Company maintains a checking and money market account with First Bank and Trust in Clay Center, Nebraska. These deposits were verified by direct confirmation from the bank. The checking account balance was confirmed and reconciled to the Company's records by giving consideration to outstanding items. The balance in this account was confirmed by the depository.

Furniture, Fixtures, and Supplies **$ 4,426**

This non-ledger 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 2011 Annual Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

Unrealized Gains (Losses) **$(28,090)**

This non-ledger asset reflects the difference between cost and market value of common stocks as of December 31, 2011.

Non-Admitted Common Stock **$ 6,661**

The Company's investment in mutual funds and stocks exceeded the limitation imposed by Section 44-5139(1)(b) of the Nebraska Insurance Statutes by the aggregate amount of $34,673. The provision of this Statute limits a company's investments in one person to 10% of

its admitted assets, which amounts to $56,488. Section 44-5153(1)(a)(ii) grants an additional authorization, "in an amount not exceeding the lesser of twenty-five percent of the amount by which its admitted assets exceed its total liabilities, excluding capital, or five percent of its admitted assets", which amounted to $28,012. After these investment provisions, the Company is $6,661 in excess of the investment limitations, which is not admitted for purposes of this examination. The admitted balance of common stocks is $284,297 less $6,661, or $277,636 as of December 31, 2011.

LIABILITIES

Net Unpaid Losses **$ 5,717**

The Company reported a gross liability for unpaid losses amounting to $133,525 in its December 31, 2011Annual Statement. The Company also reported reinsurance recoverable for previous years in the amount of $127,808, reflecting a net unpaid loss of $5,717.

A runoff test of losses was completed during the examination. The calculated gross redundancy totaled $14,748.13, which is offset by the corresponding reduction of reinsurance recoverable.

Unearned Premium **$477,022**

The Company reported unearned premium as $412,567 in its Annual Statement. The unearned premium report obtained from the Company states unearned premium at $535,625.53. The CPA hired to complete the Company's Annual Statement arrived at the amount of $412,567 by taking the written premium amount of $1,024,436.8 plus the equipment breakdown amount $6,979.82 and multiplying the total by 40%. The CPA stated that he will start using the unearned

premium report amount produced by the Company for future Annual Statements. The CPA also included a deferred premium report which totaled $58,604.10. Therefore the unearned premium amount to be reported in the Annual Statement is $535,626 less $58,604, or $477,022.

Accounts Payable **$ 35,067**

Accounts Payable at December 31, 2011 was listed as $31,123 in the Annual Statement. This liability consisted of miscellaneous office expenses due and accrued. It appears as if the Company left out payroll taxes from this account which amounted to $3,944. The accounts payable balance is $35,067 as of December 31, 2011.

Taxes, Licenses, and Fees **$ 3,423**

Premium taxes and fees at December 31, 2011 amounted to $3,423 which was paid on February 24, 2012.

Surplus as Regards Policyholders **$36,987**

Surplus as regards policyholders amounted to $36,987 at December 31, 2011, as developed through this examination.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Recommendations appearing in the last previous report of examination are reflected below together with the corrective actions taken by the Company:

1. Corporate Records - It is recommended that the Company, as evenly as possible, stagger the terms of the Directors as to comply with Section 21-2083 of the Nebraska Business Corporation Act.

   Action: The Company has complied.

2. Corporate Records - It is recommended that the Company record minutes of all meetings of the Executive Committee and any future committees established by the Board of Directors.

   Action: The Company has not complied.

3. Common Stocks – It is recommended that the Company report its mutual fund investments on the proper caption line in future Annual Statements. Mutual funds should be reported as common stocks.

   Action: The Company has complied.

4. Account and Records – Custodial Agreement - It is recommended that the Company obtain an agreement with their broker which is in accordance with Title 210, Chapter 81, Section 3 of the Nebraska Department of Insurance Rules.

   Action: The Company has not complied.

5. Disbursements – It is recommended that the Company itemize all of the expenses under the caption "All Other" in future Annual Statements.

   Action: The Company has complied.

6. Needed to Balance – It is recommended that the Company properly account for income and expenditures in order to tie to the ledger assets reported in the Annual Statement.

   Action: The Company has not complied. It appears as if the Company has labeled line 28 on pg. 4 of the Annual Statement as "Change in payables" which seems to have taken the place of the line item "Needed to Balance."

7. Depreciation – It is recommended that the Company depreciate its ledger asset value for real estate and report said amount in the disbursements section of future Annual Statements.

   Action: The Company has complied.

8. Losses – It is recommended the Company run a reserve listing on the last day of the year in order to support and accurately reflect a true reserve for unpaid losses on future Annual Statements.

   Action: The Company has complied.

9. Taxes, Licenses, and Fees - It is again recommended that premium taxes and fees be established as a liability in future Annual Statements.

   Action: The Company has complied.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Investments – Custodial Agreements

The Company's securities are being held at SmithBarney in Omaha, Nebraska. Title 210, Chapter 81 of the Nebraska Department of Insurance Rules, promulgated by the Director of Insurance, sets out the terms with which custody agreements must comply. It is again recommended that the Company formalize an agreement which complies with Title 210, Chapter 81, Section 3 of the Nebraska Department of Insurance Rules.

Change in Payables

It was noted during the last examination that the Company reported a "Needed to Balance" amount in the income section of the financial statement. It appears as if there is no longer a "Needed to balance" amount but now there is an amount labeled "Change in Payables." It is again recommended that the Company properly account for income and expenditures in order to tie to the ledger assets reported in the Annual Statement.

Basket Clause

The Company's investment in mutual funds and stocks exceeded the limitation imposed by Section 44-5139(1)(b) of the Nebraska Insurance Statutes by the aggregate amount of $34,673. The provision of this Statute limits a company's investments in one person to 10% of its admitted assets, which amounts to $56,488. It is recommended that the Company comply with Section 44-5139(1)(b) and Section 44-5153(1)(a)(ii) of the Nebraska Insurance Statutes by limiting its investments in one person to 10% of its admitted assets.

Unearned Premium

The Company was reporting unearned premium as a percentage of written premium plus equipment breakdown. The Company was able to produce an unearned premium report from their system and the amount totaled on the report does not match the amount reported in the Annual Statement. It is recommended that the Company use the amount reported in the unearned premium report rather than a percentage of written premium and equipment breakdown.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

1. Corporate Records - It is again recommended that the Company record minutes of all meetings of the Executive Committee and any future committees established by the Board of Directors.

2. Account and Records – Custodial Agreement - It is again recommended that the Company obtain an agreement with their broker which is in accordance with Title 210, Chapter 81, Section 3 of the Nebraska Department of Insurance Rules.

3. Change in Payables – It is recommended that the Company properly account for income and expenditures in order to tie to the ledger assets reported in the Annual Statement.

4. Basket Clause – It is recommended that the Company comply with Section 44-5139(1)(b) and Section 44-5153(1)(a)(ii) of the Nebraska Insurance Statutes by limiting its investments in one person to 10% of its admitted assets.

5. Unearned Premium – It is recommended that the Company use the unearned premium amount stated in their unearned premium report in the Annual Statement.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Secretary/Treasurer, L. Wayne Johnson, and employees of the Company during the course of this examination is hereby acknowledged.

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

Respectfully submitted,

Andrea Szwanek

Andrea Szwanek, CFE
Financial Examiner
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Andrea Szwanek, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of 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 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.

Andrea Szwanek
Examiner-in-Charge's Signature

Subscribed and sworn before me by Andrea Szwanek on this 12th day of February, 2013.

(SEAL) GENERAL NOTARY - State of Nebraska
BRANDIS J. COURSER
My Comm. Exp. July 25, 2014

Brandis J Courser
Notary Public

My commission expires July 25, 2014 [date].