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NEBRASKA DEPARTMENT
OF INSURANCE

CERTIFICATION

January 20, 2017

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

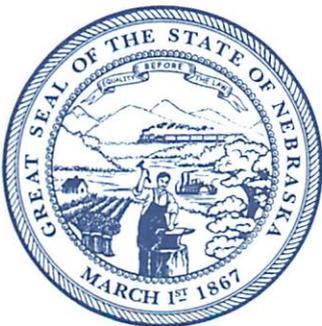
CLAY COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2015

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

CLAY COUNTY MUTUAL INSURANCE COMPANY

dated as of December 31, 2015 verified under oath by the examiner-in-charge on

December 21, 2016 and received by the company on December 20, 2016, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 5th day of January, 2017.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

CLAY COUNTY MUTUAL INSURANCE COMPANY

as of

December 31, 2015



Clay Center, Nebraska
December 19, 2016

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, 2011 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, 2015, 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 four-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, 2015.

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

Any person owning a farm or other property may become a member of this Company by making an application for insurance and on payment of the required premium, 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, all of whom shall be Members of the

Corporation and shall reside in the State of Nebraska. The Directors shall be elected at that 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, 2015:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Mike Anderson	Clay Center, NE	2016
Darrell Kluver	Clay Center, NE	2016
Calvin Ferrell	Saronville, NE	2017
Dennis Shuck	Edgar, NE	2017
Gary Briggs	Fairfield, NE	2018
Bob Swanson	Clay Center, NE	2018

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, 2015, were as follows:

<u>Name</u>	<u>Office</u>
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 recorded.

According to the Company, the Executive Committee did not have formal meetings during the examination period and the interaction between members is primarily informal, generally consisting of emails and/or telephone calls. The Company also indicated that the Committee does not take any action or have any discussions that the full Board is not made aware of. Due to the nature of the Committee at this time it does not appear necessary to keep minutes of informal interaction between members. However, the Company is advised that it should record minutes of any interaction of the Executive Committee in which actions are taken without the knowledge or consent of the full Board of Directors. The recorded minutes should then be presented to the full Board of Directors at the next scheduled meeting.

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: \$1,000,000 each claim and aggregate
Per Claim Deductible: \$2,500
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 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

The Company is a member of the Grinnell Mutual Reinsurance Company of Grinnell, Iowa (Grinnell Mutual). Under the 2015 contract, the reinsurer agreed to indemnify the Company for 100% of their aggregate net loss in excess of \$669,451 and limited the Company's liability on an individual occurrence of loss to \$150,000.

The contract provides that loss amounts exceeding \$1,000,000 for livestock, poultry or horse operations, commercial and public property, farm product storage structures, and dwellings, in addition to loss amounts exceeding \$2,000,000 for farm machinery and equipment storage buildings, 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 Department of Insurance. 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 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, 2015:

STATEMENT OF INCOME AND DISBURSEMENTS

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Balance, beginning of year	\$ <u>592,967</u>	\$ <u>651,727</u>	\$ <u>810,264</u>	\$ <u>921,426</u>
<u>Income</u>				
Gross receipts from assessments	\$1,172,622	\$1,483,166	\$1,628,091	\$1,739,442
Gross membership, cancellation & policy fees	<u>34,525</u>	<u>5,307</u>	<u>2,583</u>	<u>2,720</u>
Net received from Members	\$1,207,147	\$1,488,473	\$1,630,674	\$1,742,162
Interest on investments and dividends	4,770	10,606	9,526	12,194
Other interest	6,486	6,774	7,918	1,323
Borrowed money	167,426			
Liability premiums	160,317	165,999	150,578	149,442
Insurance premium cost	(187,266)	(179,005)		
Gain (loss) on investments	<u>(23,714)</u>	<u>17,668</u>	_____	<u>(10,803)</u>
Total income	<u>\$1,335,166</u>	<u>\$1,510,515</u>	<u>\$1,798,696</u>	<u>\$1,894,318</u>

STATEMENT OF INCOME AND DISBURSEMENTS (continued)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Disbursements</u>				
Gross losses paid	\$1,028,123	\$1,600,972	\$2,235,668	\$ 688,718
Less discount and salvage		33,500	28,279	9,100
Less reinsurance recovered	<u>567,372</u>	<u>1,058,147</u>	<u>1,540,648</u>	<u>127,512</u>
Net losses paid	\$ 460,751	\$ 509,325	\$ 666,741	\$ 552,106
Adjusting expense	46,135	47,693	46,626	47,948
Legal and accounting	7,005	12,425	8,294	8,032
Commissions to agents	187,413	236,509	256,248	276,199
Expenses of agents	35,553	42,375	30,036	26,212
Salaries & expenses of Directors & Officers	57,926	59,174	66,292	78,596
Salaries of office employees	31,298	33,572	37,991	37,424
Insurance	6,871	6,964	7,155	7,429
Repairs on real estate			488	3,253
Taxes on real estate	1,174	1,158	1,079	1,148
Insurance Department licenses and fees	12,936	15,347	23,873	20,277
All other taxes	11,717	12,363	12,915	13,329
Advertising, printing and stationery	50,002	55,940	53,775	66,245
Telephone, postage and utilities	12,265	11,576	12,587	13,198
Reinsurance premiums paid	131,925	178,939	239,152	299,225
Interest on borrowed money	2,056	1,387		
Liability premiums			168,107	172,542
Travel & meetings	28,804	36,237	34,549	38,904
Depreciation	2,053	2,053	2,053	2,053
Employee expense	18,567	18,819	19,573	10,174
Borrowed money repaid	124,262	43,164		
Other disbursements				6,995
FF&E Purchases	<u>47,693</u>	<u>26,958</u>		<u>11,757</u>
Total disbursements	<u>\$1,276,406</u>	<u>\$1,351,978</u>	<u>\$1,687,534</u>	<u>\$1,693,046</u>
Balance, end of year	<u>\$ 651,727</u>	<u>\$ 810,264</u>	<u>\$ 921,426</u>	<u>\$1,122,698</u>

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2015

ASSETS

Ledger Assets

Real estate	\$ 32,205	
Common stocks	521,665	
Cash deposited in banks	<u>568,828</u>	
Total ledger assets		<u>\$1,122,698</u>

Non-Ledger Assets

Furniture, fixtures, and supplies	\$ 56,670	
Unrealized gains (losses)	<u>49,117</u>	
Total non-ledger assets		<u>\$ 105,787</u>
Gross assets		<u>\$1,228,485</u>

Assets Not Admitted

Furniture, fixtures, and supplies	\$ <u>56,670</u>	
Total assets not admitted		<u>\$ 56,670</u>
Total admitted assets		<u>\$1,171,815</u>

LIABILITIES AND SURPLUS

Unpaid losses adjusted	\$123,180	
Less reinsurance	<u>123,180</u>	
Net unpaid losses		\$ 0
Unearned premiums		694,153
Accounts payable		62,088
Premium tax payable		<u>6,146</u>
Total liabilities		\$ 762,387
Surplus as regards Members		<u>409,428</u>
Total liabilities and surplus		<u>\$1,171,815</u>

ASSETS

Real Estate

\$ 32,205

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 but none were made during the examination period. Amortized cost after depreciation at December 31, 2015 was \$32,205.

Common Stocks

\$521,665

The Company's common stock portfolio consisted of investments in one common stock issuance and ten mutual funds. The common stock certificate and mutual fund statements were obtained and tied out to the Annual Statement.

Cash Deposited in Banks

\$568,828

At December 31, 2015, cash consisted of the following:

First Bank & Trust – Checking Account	\$162,176
First Bank & Trust – Money Market	99,641
Heartland Bank – Checking Account	245,869
Morgan Stanley – Brokerage Account	61,143
Total	<u>\$568,828</u>

The Company maintains a checking and money market account with First Bank and Trust in Clay Center, Nebraska. The deposits in these accounts were verified by direct confirmation from the bank. The checking account balance was reconciled to the Company's records by giving consideration to outstanding items. During review of the bank reconciliation it was noted that the Company had an outstanding check written on January 31, 2011, making it over five (5) years old. Section 69 of the Nebraska Unclaimed Property Act requires checks over five (5) old to be reported and delivered to the State Treasurer. It is recommended that the Company report and deliver the amount of the outstanding check to the Nebraska State Treasurer.

The Company maintains a checking account with Heartland Bank in Geneva, Nebraska. The checking account balance was verified by direct confirmation from the bank. The Company also has cash in a brokerage account with Morgan Stanley and these funds were verified by direct confirmation from Morgan Stanley.

Furniture, Fixtures, and Supplies **\$ 56,670**

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 2015 Annual Statement and the financial statements of this report in accordance with accepted insurance accounting practices.

Unrealized Gains (Losses) **\$ 49,117**

This non-ledger asset reflects the difference between cost and market value of common stocks as of December 31, 2015. This was amount verified through review of the Company's investment statements.

LIABILITIES

Net Unpaid Losses **\$ 0**

The Company reported a gross liability for unpaid losses amounting to \$123,180 in its December 31, 2015 Annual Statement. The Company also reported reinsurance recoverable in the amount of \$123,180, reflecting a net unpaid loss of \$0.

A runoff test of losses was completed during the examination. The calculated gross redundancy totaled \$21,187.

Unearned Premium **\$694,153**

The Company reported unearned premium as \$811,488 in its Annual Statement. The unearned premium report obtained from the Company was consistent with the amount reported

in the Annual Statement. Unearned premium calculations were tested and found to be consistent with the amount reported. The Company did not include unearned premium for equipment breakdown, liability and earthquake lines of business because those premiums are ceded to Grinnell Mutual. According to the Company's accounts receivable report, deferred premium totaled \$117,335. Therefore, unearned premium to be reported in the Annual Statement is \$811,488 less \$117,335, or \$694,153.

Accounts Payable **\$ 62,088**

This liability primarily consisted of miscellaneous office expenses and reinsurance premiums payable.

Premium Tax Payable **\$ 6,146**

Premium taxes at December 31, 2015 amounted to \$6,146 and were subsequently paid on February 26, 2016.

Surplus as Regards Members **\$ 409,428**

Surplus as regards Members amounted to \$409,428 at December 31, 2015, as developed through this examination.

ANNUAL STATEMENT ADJUSTMENTS

<u>Annual Statement --</u>	<u>Page</u>	<u>Line</u>	<u>Amount Reported</u>	<u>As Adjusted</u>
Liability Premiums	3	12	\$ 150,578	\$ 149,442 (a)
Advertising, Printing, stationery & Office Expenses	4	19	73,240	66,245 (b)
Other Disbursements	4	28	11,757	6,995 (c)
FF&E Purchases	4	29	0	11,757 (c)
Other Cash Deposited in Banks	5	8	568,428	568,828 (d)
Unearned Premiums	5	31	811,488	694,153 (e)
Accounts Payable	5	34a	61,733	62,088 (f)
Premium Tax Payable	5	34b	5,988	6,146 (f)

- (a) The prior year amount was not updated and was reported again in the 2015 Annual Statement.
- (b) Adjustment to move the “change in payables” of \$6,995, to page 4, line 28 (Other disbursements) of the Annual Statement.
- (c) “Change in payables” was reclassified from page 4, line 19 as detailed in (b) above. The amount reported of \$11,757 was reclassified to page 4, line 29 because it was the cost basis of an asset added to the depreciation schedule.
- (d) The amount reported was a typing error.
- (e) Adjustment to deduct deferred premiums from the unearned premium total.
- (f) The prior year amount was not updated and was reported again in the 2015 Annual Statement.

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 again 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’s Executive Committee did not have any formal meetings during the examination period. Interaction between Committee members is primarily informal, usually consisting of emails or telephone calls and generally deals with normal operational issues. Since no actions were taken during the examination period it is not required for the Executive Committee to keep minutes. However, the Company is advised that if actions are taken, minutes should be recorded and presented at the next scheduled meeting of the full 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.

Action: The Company has complied.

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.

Action: The prior examination noted that page 4, line 28 of the Annual Statement contained the line item “Change in payables” which seemed to have taken the place of “Needed to Balance”, as a write-in expense. In the current examination, “Change in Payables” was included within pg. 4, line 19, in the amount of \$6,995. The Company’s CPA indicated that the amount comes from the change in the 2014 trial balance and compiled financial statements, to the same amounts in 2015. This is done due to the fact that some of the liabilities (accounts payable and deferred premium income) are not in the general ledger or compiled financials. The Annual Statement filed with the Department is on a cash basis and that is why they have to account for the difference in the general ledger payables in this

fashion. After receiving a more detailed explanation, the Department does not object to the method of reporting, but would like to see the amount accounted for on pg. 4, line 28 in future Annual Statement filings.

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.

Action: The Company has complied.

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

Action: The Company has complied.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

1. 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.

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.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Joseph Hofmeister", is written over a horizontal line.

Joseph Hofmeister, CFE
Financial Examiner III
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Joseph Hofmeister, being duly sworn, states as follows:

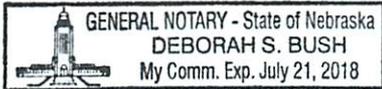
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Clay County Mutual Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards 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.

Joseph Hofmeister
Examiner-in-Charge's Signature

Subscribed and sworn before me by Joseph Hofmeister on this 21 day of December, 2016.

(SEAL)



Deborah S. Bush
Notary Public

My commission expires July 21, 2018 [date].



**CLAY COUNTY
MUTUAL
INSURANCE
COMPANY**

www.claycountymutual.com

208 West Fairfield • P. O. Box 122 • Clay Center, Nebraska 68933
Office: 402.762.3860 • 800.762.3860 • Fax: 402.762.3816

FEBRUARY 6, 2017

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE
941 "O" STR., SUITE 400
LINCOLN, NE 68508-3639

DEAR SIRs,

THE UNDERSIGNED, BEING CURRENT DIRECTORS OF CLAY COUNTY MUTUAL INSURANCE COMPANY AND BEING PRESENT AT THE SPECIAL MEETING OF THE BOARD OF DIRECTORS, HELD FEBRUARY 6, 2017.

THE DIRECTORS WERE PRESENTED INDIVIDUAL COPIES OF THE MARKET CONDUCT INSURANCE EXAMINATION CONDUCTED THROUGH DECEMBER 31, 2015. THIS REPORT OF EXAMINATION WAS PLACED ON OFFICIAL FILE ON FEBRUARY 5, 2017. THIS EXAMINATION WAS REVIEWED IN ITS ENTIRETY BY ALL DIRECTORS PRESENT AND UNDER OATH, EACH STATED THEY RECEIVED A COPY.

DARRELL KLUVER, PRESIDENT [Signature] DATE 2-6-17
 DENNIS SHUCK, VICE PRESIDENT [Signature] DATE 2-6-17
 CALVIN FERRELL [Signature] DATE 2/6/2017
 MIKE ANDERSON [Signature] DATE 2-6-17
 GARY BRIGGS [Signature] DATE 2-6-17
 BOB SWANSON [Signature] DATE 2-6-17

ATTEST: [Signature] DATE 2-6-2017
L. WAYNE JOHNSON, SECRETARY/TREASURER

STATE OF Nebraska, COUNTY OF Clay } ss.
THIS INSTRUMENT WAS ACKNOWLEDGED BEFORE ME THIS DAY 6 OF February 2017

MY COMMISSION EXPIRES July 24, 2019 [Signature]
(Notary-Public)

