

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

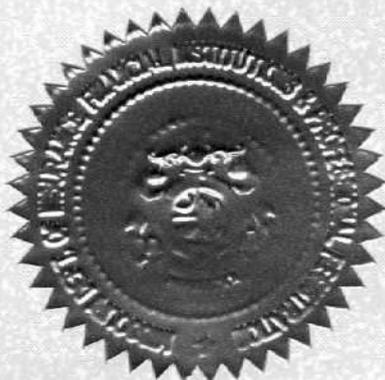
RE: Examination Report of Henry County Mutual Insurance Company as of December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Henry County Mutual Insurance Company for the period ended December 31, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Henry County Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations, if any, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

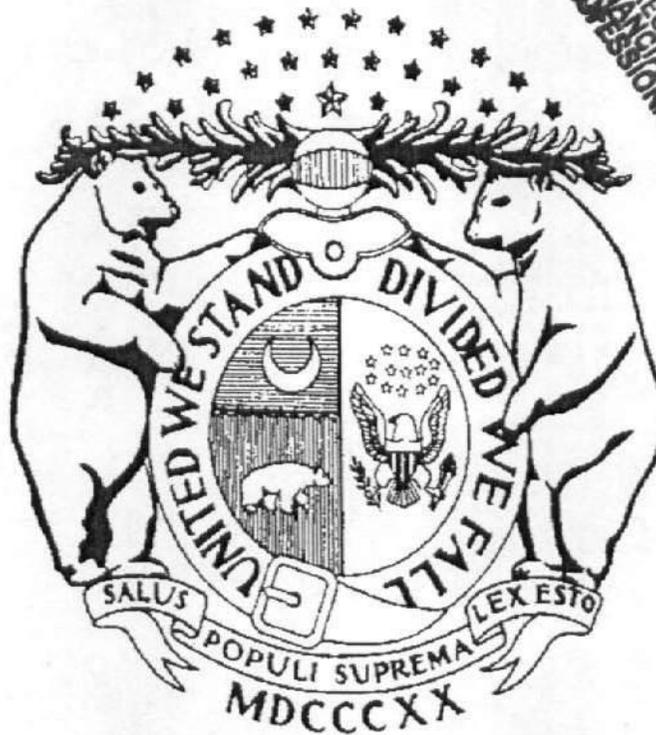
So ordered, signed and official seal affixed this 11th day of May 2012.



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF
HENRY COUNTY MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2010



FILED
MAY 11 2012
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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February 17, 2012
Clinton, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

HENRY COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 325 North Second Street (P.O. Box 130), Clinton, Missouri, telephone number (660) 885-4221. This examination began January 23, 2012, and concluded on January 24, 2012, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2006, through December 31, 2010, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no comments or recommendations in the previous examination report dated December 31, 2005.

HISTORY

General

The Company was organized and incorporated on September 22, 1891 as The Farmers Mutual Fire and Lightning Insurance Company of Henry County. In July 1985, the Company changed its name to Henry County Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Tuesday in February at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, which is elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2010, were as follows:

| <u>Name and Address</u> | <u>Occupation</u> | <u>Term</u> |
|--------------------------------------|-------------------|-------------|
| Matthew Jones Clinton, Missouri | Agent/Farmer | 2010-2012 |
| Joshua McNelly Norborne, Missouri | Agent | 2009-2011 |
| Stanley Egbert Windsor, Missouri | Farmer | 2010-2012 |
| Richard Wirsig Clinton, Missouri | Business Owner | 2010-2012 |
| Norman Sapp Montrose, Missouri | Agent/Farmer | 2011-2013 |

| | | |
|--------------------------------------|-------------------|-----------|
| Brian Mouse Urich, Missouri | Agent | 2011-2013 |
| Sarah Shoemaker Calhoun, Missouri | Agent/Real Estate | 2009-2011 |

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2010, were as follows:

| | |
|---------------|---------------------|
| Matthew Jones | President |
| Norman Sapp | Vice President |
| Judy Himes | Secretary-Treasurer |

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. A review of the signed statements noted three of the seven directors disclosed they are also agents for the Company.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

Holding Company, Subsidiaries and Affiliates

The Company has a wholly owned subsidiary, Henry County Mutual Insurance Agency which shares office space in the corporate office, as well as other expenses. It was noted, the Company has not obtained a written intercompany agreement detailing the sharing of costs, nor has the Agency been billed for or paid its share of ongoing expenses.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers. The Company also carries errors and omissions coverage for its captive agents. Independent agents are responsible for

purchasing their own errors and omissions coverage.

The Company also carries general liability, home office building and office contents coverage.

EMPLOYEE BENEFITS

The Company has four full-time employees. The benefits package offered to the employees includes health insurance and paid time off.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company's policies are sold by seven agents. Agents are paid a 14% commission.

Policy Forms and Underwriting Practices

The Company utilizes MAMIC and AAIS policy forms. The policies are renewed annually and renewal billings mailed directly to the insured. Property inspections are performed by the agents, and adjusting services are performed by the agents and independent adjusters. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Gross Premiums</u> | <u>Gross Losses</u> | <u>Investment Income</u> | <u>Underwriting Income</u> | <u>Net Income</u> |
|-------------|----------------------------|--------------------|---------------------------|-------------------------|------------------------------|--------------------------------|-----------------------|
| 2010 | \$3,573,221 | \$1,790,311 | \$2,984,419 | \$1,503,632 | \$17,135 | (\$170,511) | (\$41,097) |
| 2009 | 3,627,408 | 1,817,623 | 2,837,335 | 2,067,511 | 67,656 | (605,266) | (513,453) |
| 2008 | 3,705,680 | 1,235,598 | 2,612,245 | 2,552,472 | 111,803 | (563,919) | (440,217) |
| 2007 | 4,073,849 | 1,039,173 | 2,490,521 | 2,184,338 | 154,804 | (291,431) | (30,017) |
| 2006 | 4,074,654 | 1,009,962 | 2,376,458 | 2,399,612 | 131,407 | (125,753) | (16,921) |

At year-end 2010, 4,474 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|---------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Direct | \$2,376,458 | \$2,490,521 | \$2,612,245 | \$2,837,335 | \$2,984,419 |
| Assumed | 13,717 | 15,061 | 14,890 | 15,054 | 10,509 |
| Ceded | <u>768,516</u> | <u>883,375</u> | <u>925,904</u> | <u>1,040,792</u> | <u>1,126,584</u> |
| Net | <u>\$1,621,659</u> | <u>\$1,622,207</u> | <u>\$1,701,231</u> | <u>\$1,811,597</u> | <u>\$1,868,344</u> |

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MAMIC. MAMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 95% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a per risk excess of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess section of the agreement, the Company retains \$75,000 for each loss and the reinsurer's limits are \$800,000 per exposure.

Under the aggregate excess of loss section of the agreement, the Company's annual aggregate net retention, or attachment point, is equal to 75% of the Company's net written premium for the year. The reinsurer is liable for 100% of losses in excess of this retention.

Under the casualty quota share section of the agreement, the Company cedes 100% of the risk and premium for liability policies, and receives a 25% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. The outside CPA firm, DSWA Certified Public Accountants, PC, conducted an annual agreed-upon compilation of the Company's Annual Statement and tax filings for all years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2010, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2010

| | |
|-------------------------------|--------------------|
| Bonds | \$819,606 |
| Real Estate | 129,318 |
| Cash on Deposit | 1,901,864 |
| Other Investments | 202,820 |
| Premiums Uncollected | 10,984 |
| Reinsurance Recoverables | 251,516 |
| Computer Equipment | 49,105 |
| Interest Due and Accrued | 5,604 |
| Mutual D/O & E/O | 121,001 |
| Premium Overpaid to Reinsurer | 81,403 |
| Total Assets | <u>\$3,573,221</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

| | |
|--|--------------------|
| Losses Unpaid | \$289,455 |
| Unearned Premium | 994,865 |
| Borrowed Money | 432,660 |
| Policyholder Deposits | 43,255 |
| Premium tax payable and other payables | 30,076 |
| Total Liabilities | <u>\$1,790,311</u> |
| Guaranty Fund | \$150,000 |
| Other Surplus | 1,632,910 |
| Total Surplus | <u>\$1,782,910</u> |
| Total Liabilities and Surplus | <u>\$3,573,221</u> |

STATEMENT OF INCOME
For the Year Ending December 31, 2010

| | |
|--|--------------------|
| Net Premiums Earned | \$1,853,313 |
| Other Insurance Income | 189,959 |
| Net Losses & Loss Adjustment Expenses Incurred | (1,448,786) |
| Other Underwriting Expenses Incurred | (764,997) |
| Net Underwriting Income (Loss) | <u>(\$170,511)</u> |
| Investment Income | 17,135 |
| Other Income | 39,241 |
| Gross Profit (Loss) | <u>(\$114,135)</u> |
| Federal Income Tax | 73,038 |
| Net Income (Loss) | <u>(\$41,097)</u> |

CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

| | |
|---|--------------------|
| Policyholders' Surplus, December 31, 2009 | \$1,809,785 |
| Net Income (Loss) | (41,097) |
| Change in Non-Admitted Assets | <u>14,222</u> |
| Policyholders' Surplus, December 31, 2010 | <u>\$1,782,910</u> |

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

Intercompany Transactions (page 3)

Although the Company engages in intercompany transactions with the wholly owned subsidiary, Henry County Mutual Insurance Agency, there is no agreement detailing the relationship, nor is there any reimbursement of costs and expenses paid on behalf of the subsidiary. The Company should create an agreement detailing the relationship with its subsidiary and implement said agreement as quickly as possible.

SUBSEQUENT EVENTS

None.

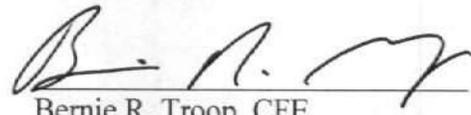
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Henry County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Jackson)

I, Bernie R. Troop on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

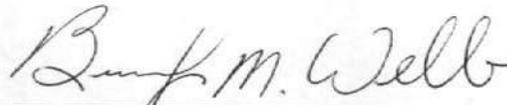


Bernie R. Troop, CFE
Financial Examinynt
Missouri DIFP

Sworn to and subscribed before me this 7th day of March, 2012.

My commission expires:

04/14/2012



Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay
My Commission Expires 4/14/2012
Commission # 08464070

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark Nance, CFE, CPA
Audit Manager - Kansas City
Missouri DIFP

HENRY COUNTY MUTUAL INSURANCE

325 N Second St
P.O. Box 130
Clinton, MO 64735
660-885-4221
660-885-4669 (Fax)

April 25, 2012

Tammy Rodieck, Exam Coordinator

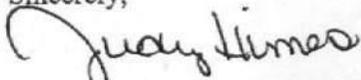
RE: Written response to Examination Report

Dear Tammy,

The Board of Directors met on April 13, 2012 and discussed having a written agreement between Henry County Mutual and Henry County Mutual Agency for any reimbursement of costs or expenses. A motion was made by Sarah Shoemaker (Director) to set up an agreement between the Mutual and the Mutual Agency for these expenses. Jeff Stone (Director) seconded this motion and the motion passed unanimously.

Please note that Henry County Mutual Insurance has an agreement with Henry County Mutual Agency for a monthly amount which will be agreed upon on an annual basis.

Sincerely,



Judy Himes
Secretary