STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Jasper County Mutual Insurance Company as of December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Jasper County Mutual Insurance Company for the period ended December 31, 2011, 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 Jasper 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 18th day of October 2012.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

JASPER COUNTY MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2011

FILED
OCT 18 2012
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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May 9, 2012
Carthage, 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

JASPER COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 505 South Main, Carthage, Missouri 64836, telephone number (417) 358-2557. This examination began on May 2, 2012, and concluded on May 9, 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, 2011, 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 originally organized on December 11, 1895, and incorporated on December 27, 1902, as Jasper County Farmers Mutual Fire and Lightning Insurance Company. On June 28, 1978, the Company changed its name to Jasper County Mutual Insurance Company.

The Company has a Certificate of Authority dated January 1, 1985, 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 first Friday in March 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 are not addressed in the Articles or Bylaws. Ten 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, who are elected from the general membership. The Board of Directors consists of eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets monthly. Directors receive $125 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2011, were as follows:

Name and Address	Occupation	Term
Greg Easson Carthage, Missouri	Paramedic, Insurance Agent & Company Manager	2011-2014
Todd Johnson Reeds, Missouri	City of Joplin Employee	2010-2013

James Honey Carthage, Missouri	Jasper County Commissioner	2011-2014
Jeff Ummel Reeds, Missouri	Farmer & Insurance Agent	2009-2012
Thomas Elliott Carl Junction, Missouri	Insurance Agent	2011-2014
Walt Wicklund Carthage, Missouri	School Teacher & Insurance Agent	2009-2012
George Case Carthage, Missouri	Farmer	2009-2012
Raymond Peters Carthage, Missouri	Farmer	2010-2013

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, 2011, were as follows:

Greg Easson	President
Todd Johnson	Vice-President
James Honey	Secretary
Jeff Ummel	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 no significant conflict disclosures.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not amended during the examination period.

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.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of $50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for their directors and officers. The Company requires its agents to purchase errors and omissions coverage.

The Company also carries other insurance, which includes business property and liability coverage and workers compensation coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees, a manager and an assistant. The manager received no additional benefits outside of a salary. The benefits provided to the assistant include 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 writes fire and wind coverages and markets liability coverages through an organizational agreement with its reinsurer. The Company's policies are marketed by seven licensed agents, who receive a fifteen percent commission on premiums written.

Policy Forms and Underwriting Practices

The Company utilizes Grinnell Mutual Reinsurance Company policy forms. The policies are written on a continuous period. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by the Company manager and a contracted inspector/adjuster. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$996,943	$695,027	$889,339	$5,665,417	$17,711	$(228,081)	$(208,552)
2010	1,019,464	458,320	838,712	609,058	42,452	(135,491)	(46,708)
2009	1,046,882	439,030	821,664	1,308,002	4,181	(192,911)	(173,407)
2008	1,207,494	426,235	820,124	1,164,029	67,332	(192,791)	(112,208)
2007	1,404,889	511,422	777,998	407,583	73,225	(163,782)	(79,079)
2006	1,336,702	364,155	833,390	827,404	55,886	(208,218)	(136,087)

At year-end 2011, 1,381 policies were in force.

Total Company surplus decreased from $1,108,634 as of December 31, 2005 to $301,916 as of December 31, 2011, a decrease of over 70%. The Company has not reported a profitable year in this six-year timeframe. The surplus level at December 31, 2011 exceeds the minimum surplus requirement, or guaranty fund amount, by only $151,916. The Company instituted rate increases in 2011, which appeared to have had a somewhat stabilizing effect; however, additional measures must be taken to ensure the Company continues as a going concern. The Board of Directors and management are directed to formulate and implement a plan of specific measures aimed to improve the financial condition of the Company. This plan should include ways to increase revenue and decrease expenses, in order to return the Company to profitability. The plan should be filed with the DIFP with the response to this report.

REINSURANCE

General

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

	2006	2007	2008	2009	2010	2011
Direct	$833,390	$777,998	$820,124	$821,664	$838,712	$889,339
Assumed	0	0	0	0	0	0
Ceded	(262,104)	(259,114)	(293,418)	(302,948)	(353,973)	(366,783)
Net	$ 571,286	$ 518,884	$ 526,706	$ 518,716	$ 484,739	$ 522,556

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks.

Under the individual occurrence of loss excess portion of the agreement, the Company retains $50,000 for each loss occurrence and the reinsurer's limits are $1,000,000 per exposure.

Under the aggregate excess portion of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2011 was $449,081.

Under the facultative reinsurance portion of the agreement the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The Company has an organizational agreement with the reinsurer, under which it markets liability coverages on behalf of the reinsurer. The Company receives a 20% commission on premiums written under the arrangement.

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 Company utilizes Rural Computer Consultants policy maintenance and accounting software. The firm of Hardy, Wrestler & Associates, CPA's, P.C., compiles the Annual Statement and prepares tax filings.

Several additional issues were noted during the examination that should be addressed by the Company. These issues are summarized below and are addressed in further detail in the management letter provided to the Company.

- The Company reported an asset of $22,013 representing vacant lots owned in Joplin, Missouri. Such non-home office real estate is not an admitted asset per 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments).
- The Company was unable to provide a detailed outstanding check listing as of December 31, 2011, which hindered the ability to verify the Company's cash balance.

- The Company has a check signing policy which requires both the Company Manager and his assistant to sign checks, regardless of the check amount. This is not an effectively designed control, due to the supervisor/subordinate relationship of the signors.
- The Company was unable to produce a claims register. The claims register is an important management tool in tracking both paid claims and unpaid loss liability.
- The Company does not have a written policy manual. It is important that the policies and procedures of the Company are clearly documented so that business may be conducted in an orderly manner.

The Company should address the issues regarding Company-owned vacant lots, outstanding check listings, check-signing policy, claims registers and policy manual. Documentation of the resolution of these issues should be filed with the DIFP.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2011, 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, 2011

Bonds	$ 466,805
Real Estate	69,700
Cash and Short-Term Investments	325,516
Other Investments	22,013
Uncollected Premiums & Agent's Balances	2,567
Computer Equipment	5,134
Federal Income Tax Recoverable	2,018
Interest Due and Accrued	103,190
Total Assets	$ 996,943

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Unpaid Losses (Note 1)	$ 0
Ceded Reinsurance Premium Payable (Note 2)	57,363
Unearned Premiums	373,688
Borrowed Money	259,826
Payroll Taxes Payable	2,531
Accounts Payable	1,619
Total Liabilities	$ 695,027
Guaranty Fund	$ 150,000
Other Surplus	151,916
Total Surplus	301,916
Total Liabilities and Surplus	$ 996,943

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 496,007
Other Insurance Income	73,527
Net Losses & Loss Adjusting Expenses Incurred	(555,118)
Other Underwriting Expenses Incurred	(242,497)
Net Underwriting Income (Loss)	$ (228,081)
Net Investment Income	17,711
Other Income	5,800
Gross Profit (Loss)	$ (204,570)
Federal Income Tax	(3,982)
Net Income (Loss)	$ (208,552)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 561,144
Net Income (Loss)	(208,552)
Examination Change – Unpaid Losses	6,690
Examination Change – Reinsurance Payable	(57,363)
Rounding	(3)
Policyholders' Surplus, December 31, 2011	$ 301,916

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Unpaid Losses

The Company reported a liability for net unpaid losses of $6,690 at December 31, 2011. Per the examination, this amount was the gross unpaid loss value, and was fully recoverable under the reinsurance program. Therefore, the net unpaid loss liability was equal to $0. An examination change was made to reduce the net unpaid loss liability from $6,690 to $0.

Note 2 – Ceded Reinsurance Payable

The Company reported a liability balance of $0 for ceded reinsurance payable at December 31, 2011. The Company failed to accrue for a total due to its reinsurer of $57,363, which consisted of $31,991 in catastrophe adjusting expenses and $25,372 in December 2011 reinsurance premium. An examination change was made to increase the ceded reinsurance payable from $0 to $57,363.

EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2011			$ 352,589
	Increase in Surplus	Decrease in Surplus	
Net Unpaid Losses	$ 6,690	$ 0	
Ceded Reinsurance Payable	0	(57,363)	
Total Change	$ 6,690	$ (57,363)	(50,673)
Total Policyholder Surplus Per Examination, December 31, 2011			$ 301,916

SUMMARY OF RECOMMENDATIONS

Growth and Loss Experience of the Company (Page 5)

The Board of Directors and management are directed to formulate and implement a plan of specific measures aimed to improve the financial condition of the Company. This plan should include ways to increase revenue and decrease expenses, in order to return the Company to profitability. The plan should be filed with the DIFP with the response to this report.

Accounts and Records (Page 6)

The Company should address the issues regarding Company-owned vacant lots, outstanding check listings, check-signing policy, claims registers and policy manual. Documentation of the resolution of these issues should be filed with the DIFP.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger 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.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 27th day of August, 2012.

My commission expires:

February 10, 2013

Notary Public

TAMMY S. RODIECK
NOTARY PUBLIC
MY COMMISSION EXPIRES
February 10, 2013
NOTARY SEAL
#07516951
COLE COUNTY
STATE OF MISSOURI

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