

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

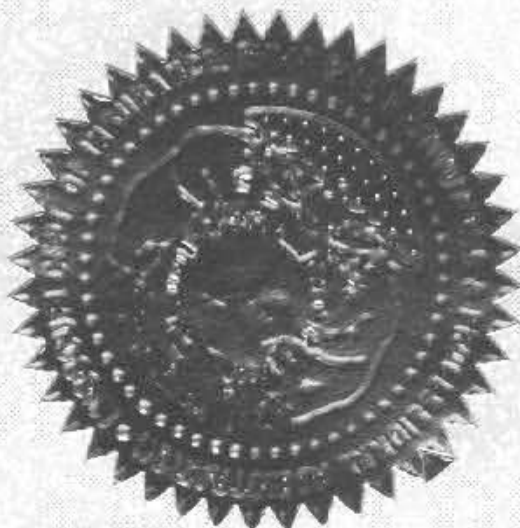
RE: Examination Report of Missouri Heritage Mutual Insurance Company as of  
December 31, 2008

### ORDER

After full consideration and review of the report of the financial examination of Missouri Heritage Mutual Insurance Company for the period ended December 31, 2008, 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 Missouri Heritage 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 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 February 8, 2010.



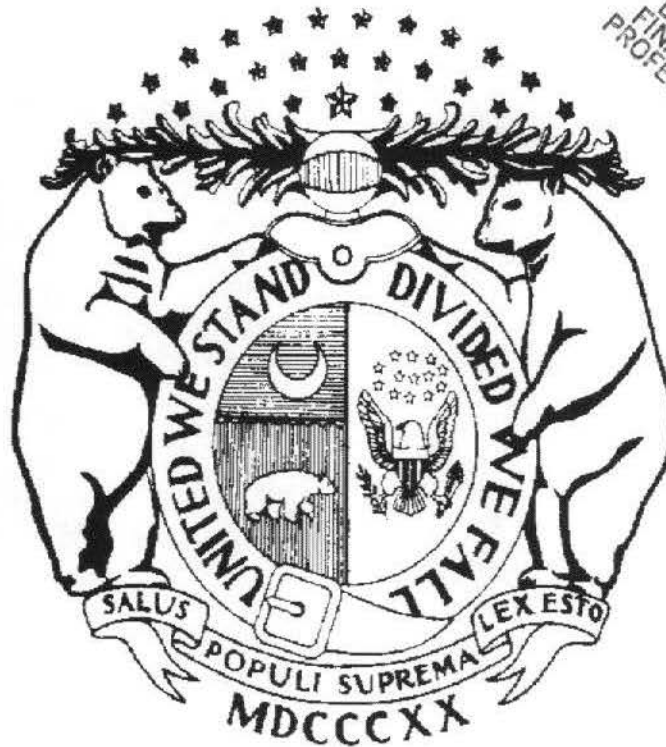
A handwritten signature in black ink, appearing to read "John M. Huff".

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

REPORT OF THE  
FINANCIAL EXAMINATION OF

Missouri Heritage Mutual Insurance Company

AS OF  
DECEMBER 31, 2008



**FILED**  
FEB 08 2010  
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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December 4, 2009  
Gordonville, 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

**Missouri Heritage Mutual Insurance Company**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 192 State Highway Z (P.O. Box 82), Gordonville, Missouri 63752, telephone number (573)243-2884. This examination began on November 30, 2009, and was concluded on the above date, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the predecessor company, Gordonville Mutual Insurance Company, was made as of December 31, 2003, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004 through December 31, 2008, 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 by 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**

This is the first examination of Missouri Heritage Mutual Insurance Company. The predecessor company, Gordonville Mutual Insurance Company, was examined as of December 31, 2003. This examination did not result in any report comments.

## **HISTORY**

### **General**

Missouri Heritage Mutual Insurance Company was originally organized as Cape Girardeau County Farmers Mutual Aid Society and began business on June 7, 1869. On September 30, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State. On September 2, 1972, the Company changed its name to Gordonville Mutual Insurance Company. Effective January 1, 2006, the DIFP approved a merger between Gordonville Mutual Insurance Company and Community Mutual Insurance Company. Pursuant to this merger, Gordonville Mutual Insurance Company was the surviving corporation, and its name was changed to Missouri Heritage Mutual Insurance Company.

On January 3, 2006 the Company was issued a Certificate of Authority by the DIFP, placing the Company under Sections 380.201 through 380.611 RSMo, which govern Extended Missouri Mutual Insurance Companies.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Saturday in March at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members.

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 nine members, each of whom serves a three-year term. All directors must be policyholders of the Company. The Board of Directors meets approximately five times per year. Directors are compensated \$100 for each evening meeting and \$150 for meetings during the daytime.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Daniel R. Brown Jackson, Missouri	Secondary Teacher	2010
Lawrence D. Bill Jackson, Missouri	Real Estate Investor	2009
Larry Deneke Whitewater, Missouri	Maintenance	2011
Wayne Deneke Cape Girardeau, Missouri	Farmer	2010
Gary Dost Jackson, Missouri	Salesman	2011
Virgil Felty Millersville, Missouri	Construction/Farmer	2010
James Reitzel Whitewater, Missouri	Farmer	2009
David Joe Wessell Gordonville, Missouri	Farmer	2009
Todd Woodfin Advance, Missouri	Banker	2011

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2008, were as follows:

Wayne Deneke	President
Lawrence D. Bill	Vice-President
Kathryn Miller	Secretary/Treasurer/Manager
James Deneke	Assistant Secretary/Treasurer/Manager

### **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, and no potential material conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended in 2005 to reflect the name change from Gordonville Mutual Insurance Company to Missouri Heritage Insurance Company. The Bylaws were also amended in 2005 to reflect the name change. The Bylaws were amended again in 2007 to reflect changes related to the Secretary's duties and the reinstatement of lapsed policies.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains employee dishonesty coverage providing a liability limit of \$50,000. This coverage meets the minimum amount of \$50,000 suggested in the guidelines promulgated by the NAIC. The bond is underwritten by RLI Insurance Company.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company (Sikeston, Missouri) with a limit of liability of \$3,000,000.

The Company currently uses a total of 16 independent agents/agencies. Nearly all of the agents are required to maintain errors and omissions coverage. The coverage is through various insurance companies and has limits of liability ranging from \$500,000 to \$4 million. The Company does have one agent who has very few remaining policies and does not carry errors and omissions coverage. The Company does not reimburse agents for errors and omissions coverage.

The Company has a business property policy issued by the Company. The policy insures the Company's office building and contents, valued at \$161,775 as of December 31, 2008. The Company also has a commercial liability policy issued by the Company. The policy has liability limits of \$1 million general aggregate, \$500,000 each occurrence and \$10,000 medical payments per person. The Company's net liability under these coverages is subject to reinsurance retentions, as described in the "Reinsurance" section of this report.

The Company's insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four employees, including a full-time Secretary/Treasurer/Manager, a full-time Clerk Receptionist, and two part-time Office Assistants. Salaries of employees are determined by the Board of Directors. The Company has a health insurance reimbursement plan and makes contributions to a simple IRA plan for its employees. The Company also provides paid vacation and holidays. Employees are reimbursed for business expenses. The Company maintains a detailed employee handbook and procedure manual.

## **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 the State of Missouri.

The Company's policies are sold by a total of 16 independent agents. Agents receive a 15% commission on both new and renewal premiums written.

### **Policy Forms and Underwriting Practices**

The Company utilizes AAIS (American Association of Insurance Services) policy forms provided by the Missouri Association of Mutual Insurance Companies. The AAIS forms have been approved by the DIFP.

Policies are written for a one-year period and renewed annually. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

The Company utilizes outside parties for inspections and claims adjusting. The Company's Assistant Secretary/Treasurer/Manager also performs some of the inspections and claims adjusting.



## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<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>
2008	\$1,663,572	\$ 379,778	\$976,823	\$678,387	\$67,787	\$(287,616)	\$(230,306)
2007	1,914,977	400,875	944,562	370,592	76,512	23,599	140,081
2006	1,835,602	409,451	921,331	342,171	57,281	15,209	86,517
2005	1,324,228	304,637	682,049	253,809	36,641	57,885	98,504
2004	1,239,561	309,438	596,930	125,118	29,212	41,018	56,226

It is noted that the 2004 and 2005 totals are for Gordonville Mutual Insurance Company prior to the merger with Community Mutual Insurance Company. At year-end 2008, 1,723 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct	\$ 596,930	\$ 682,049	\$ 921,331	\$944,562	\$ 976,823
Assumed	0	0	0	0	0
Ceded	<u>(276,452)</u>	<u>(293,746)</u>	<u>(293,826)</u>	<u>(280,879)</u>	<u>(278,776)</u>
Net	<u>\$ 320,478</u>	<u>\$ 388,303</u>	<u>\$ 627,505</u>	<u>\$ 663,683</u>	<u>\$ 698,047</u>

### Assumed

None.

### Ceded

The Company has four reinsurance agreements with Farmers Mutual Hail Insurance Company of Iowa (the Reinsurer). The following is a description of coverage provided by these agreements.

#### Per Risk Excess of Loss Agreement

This contract covers all property perils. For the first layer, the Reinsurer indemnifies the Company 100% for each loss in excess of \$50,000. The limit of liability to the Reinsurer is \$50,000. At the second layer, the Reinsurer indemnifies the Company 100% of net losses in excess of \$100,000. The limit of liability to the Reinsurer is \$400,000. The per-occurrence limit is \$125,000 for the first layer and \$400,000 for the second layer. This agreement is also includes a \$50,000 annual aggregate deductible.

#### Aggregate Excess of Loss Agreement

This contract covers all property perils. For the first layer, the Reinsurer is liable for 97.5% of losses in excess of 85% of net written premium. The limit of liability to the Reinsurer is 50% of net written premium. For the second layer, the Reinsurer is liable for 100% of losses in excess of 135% of net written premium. The limit of liability to the Reinsurer is 125% of net written premium. For the third layer, the Reinsurer is liable for 100% of losses in excess of 260% of net written premium. The limit of liability to the Reinsurer is 825% of net written premium.

#### Property Facultative Pro Rata Agreement

The Company cedes 100% of its property risks in excess of \$500,000 to the Reinsurer.

#### Liability Quota Share Reinsurance

The Company cedes 100% of its liability business to the Reinsurer.

### **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a cash basis. The Company's accountant, Van De Ven, LLC, prepares the Company's Statutory Annual Statement and Federal Income Tax return and performs an annual review of the Company's financial statements.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, 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, 2008**

Real Estate	\$ 74,447
Cash on Deposit	1,533,370
Computer Equipment	4,804
Federal Income Tax Recoverable	1,657
Interest Due and Accrued	4,607
Other Assets	44,687
	-----
Total Assets	\$1,663,572
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2008**

Losses Unpaid	\$ 24,028
Ceded Reinsurance Premiums Payable	3,620
Unearned Premium	344,716
Other Liabilities	7,414
	-----
Total Liabilities	\$ 379,778
	-----
Guaranty Fund	\$ 150,000
Other Surplus	1,133,794
	-----
Total Surplus	1,283,794
	-----
Total Liabilities and Surplus	\$1,663,572
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2008**

Net Premiums Earned	\$ 640,344
Other Insurance Income	25,480
Net Losses & Loss Adjustment Expenses Incurred	(649,279)
Other Underwriting Expenses Incurred	(304,163)
	-----
Net Underwriting Income (Loss)	\$ (287,618)
	-----
Investment Income	\$ 67,787
Other Income	106
	-----
Gross Profit (Loss)	\$ (219,725)
Federal Income Tax	(10,583)
	-----
Net Income (Loss)	\$ (230,308)
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2008**

Policyholders' Surplus, December 31, 2007	\$1,514,102
Net Income (Loss)	(230,308)
	-----
Policyholders' Surplus, December 31, 2008	\$1,283,794
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

None.





Missouri

# Heritage Mutual Insurance Company

Since 1869

Telephone: 573-243-2884  
Fax: 573-243-5279

Gordonville, MO 63752

192 State Highway Z  
P O Box 82

**VIA FACSIMILE 573-751-5888**  
**Tammy Rodieck, Exam Coordinator**

January 25, 2010

Frederick G. Heese, CFE, CPA  
Chief Financial Examiner & Division Director  
P. O. Box 690  
Jefferson City, MO 65102-0690

Dear Mr. Heese:

The officers and directors of the Missouri Heritage Mutual Insurance Company acknowledge receipt of your report of examination of our company for the period ending December 31, 2008.

As there are no General Comments and/or Recommendations contained on page 11 of the Examination Report, there is no need for corrective action by our company.

This response letter may be included with the published report of financial examination, and may be a matter of public record.

We appreciate the courtesies extended to our company by the Department of Insurance in the conducting of this examination, and compliment your staff Financial Examiner, Mr. John Boczkiewicz on the professionalism that he displayed during the course of our examination.

Yours truly,

MISSOURI HERITAGE MUTUAL INSURANCE COMPANY

  
Wayne Deneke, President

WD/kdm

RECEIVED  
FEB 02 2010  
INSURANCE SOLVENCY  
&  
COMPANY REGULATION

