

**REPORT OF
FINANCIAL EXAMINATION**

**HAWTHORN MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2003**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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January 28, 2005
Kansas City, Missouri

Honorable Douglas M. Omen, Acting Director
Missouri Department of Insurance
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 the

HAWTHORN MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is 2600 Grand Avenue (P.O. Box 22631), Kansas City, Missouri 64113, telephone number (913) 676-9313. This examination began on January 28, 2005, and was concluded on January 28, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope financial examination of the Company was made as of December 31, 1998, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the exam 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 Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments - Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1998, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management and Control

Comment: It was recommended that the Company's membership properly approve the amended Articles of Incorporation and submit them to the Missouri Department of Insurance (MDI).

Company Response: The amended and restated Articles of Incorporated were approved by the Company membership and filed with the MDI.

Current Findings: The amended and restated Articles of Incorporation were approved by the membership at a special meeting on November 9, 1999. The Company submitted a copy of the document to the MDI, but did not submit the forms necessary for approval (see the "Management and Control" section of this report).

Corporate Records

Comment: It was recommended that the Board of Directors put more Company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

Company Response: The Company has not completed a policies and procedures manual.

Current Findings: The Company does not have a policies and procedures manual, which outlines the policies of the Company (see the "Corporate Records" section of this report)

Fidelity Bond and Other Insurance

Comment: It was recommended that the Company obtain sufficient insurance coverages when it recommences business.

Company Response: The Company has not yet recommenced business.

Current Findings: The Company has not yet recommenced business (See the “Fidelity Bond and Other Insurance” section of this report).

Policy Forms and Underwriting Practices

Comment: It was recommended that the Company file all applications and forms in accordance with Section 380.091 RSMo. (Filing Requirements).

Company Response: The Company filed the policy form and applications with the MDI.

Current Findings: The policy forms and applications were properly filed with the MDI.

HISTORY

General

Hawthorn Mutual Insurance Company was originally established and incorporated in 1947 as Lincoln Tornado Insurance Company. On October 18, 1989, the Company amended its Articles of Incorporation, changing its name to Hawthorn Mutual Insurance Company and moving the corporate charter to Jackson County, Missouri. The Company is covered by Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies).

Management

The annual meeting of the Company's members is held on the third Monday of January, at the home office of the Company, or at such other place as may be designated by the Board of Directors. According to the Amended and Restated Articles of Incorporation approved by the Company's membership during the examination period, the annual meeting is to be held on the first Monday in February. It is recommended the

Company abide by the provisions of the Articles of Incorporation regarding the annual meeting date. 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.

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 five members, serving one-year terms. According to the Amended and Restated Articles of Incorporation approved by the membership during the examination period, directors are to serve three-year terms. It is recommended the Company abide by the provisions of the Articles of Incorporation regarding director terms. All Directors must be policyholders of the Company. The Board of Directors meets approximately once a year, and the directors are not compensated.

Members serving on the Board of Directors as of December 31, 2003, were as follows:

<u>NAME AND ADDRESS</u>	<u>OCCUPATION</u>	<u>TERM</u>
Bernard R. Geis 8011 Sagamore Leawood, Kansas	Insurance Executive	2003-2004
Sherry L. Geis 8011 Sagamore Leawood, Kansas	Homemaker	2003-2004
Lucinda Duggan Kobusch 6100 West 1194 th Stilwell, Kansas	Homemaker	2003-2004
Frederick William Kobusch IV 8247 West 123 rd Terrace Overland Park, Missouri	Insurance Executive	2003-2004

The Company failed to appoint a director to a position vacated in 2001. Thus, at December 31, 2003, the Company had four directors, which is less than the minimum of five directors, as required by Section 380.041RSMo. (Board of directors). It is recommended the Company ensure compliance with Section

380.041 RSMo. (Board of directors) regarding the number of directors appointed by the Company's membership.

The Board of Directors elects a President, Secretary, and Treasurer for a term of one year.

Officers of the Company serving at December 31, 2003, were as follows:

Bernard R. Geis	President
Sherry L. Geis	Secretary
Frederick William Kobusch IV	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, and no material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The membership approved the Amended and Restated Articles of Incorporation ("Amended Articles") at a special meeting on November 9, 1999. The Amended Articles contain updated language and address such items as proxy voting, quorum requirements and terms of office for directors, as was recommended in prior examination reports. Although the Company provided a copy of the Amended Articles to the Missouri Department of Insurance, the proper documents were not filed for the approval of the Amended Articles. It is recommended the Company submit the proper filing of its Amended and Restated Articles of Incorporation to the Missouri Department of Insurance. The Company also updated the language of its Bylaws during the examination; however, the membership meeting minutes did not contain documentation of the approval of the By-laws. It is recommended the Company gain the approval of the membership for the Amended and Restated By-Laws and document such approval in the membership meeting minutes.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. Although the Board of Directors approve and discuss investments and expenses, which are documented in the minutes, other verbal Company policies are not placed in writing (Underwriting Policy, Signature of Checks, Investment Policy, etc).

It is recommended that the Board of Directors put more Company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains no fidelity insurance coverage. The NAIC suggests a Company with this amount of assets and activity should maintain Fidelity Bond coverage from \$15,000 to \$25,000.

The Company carries no Directors' and Officers' liability coverage.

It is recommended that the Company obtain sufficient insurance coverages when it recommences business.

EMPLOYEE BENEFITS

The Company has no employees.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as a Missouri Mutual Insurance Company operating under Sections 380.011 through 380.151 RSMo. The Company is authorized to write fire and wind insurance coverage in Jackson and all adjoining counties in the State of Missouri. Currently, the Company only writes fire coverage on contents.

The Company is currently semi-dormant, with only six policies in-force at the examination date. Consequently, the Company does not have any agents.

Policy Forms and Underwriting Practices

The Company uses an ISO Standard Fire Policy Form, which has been filed with the Missouri Department of Insurance. The policies are renewed annually. Rates are determined by the Board of Directors. As of the examination date, the Company had six contents policies in force, each with a \$500 limit. Due to favorable loss experience during the examination period, premiums were waived for all policyholders during the period.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses Incurred	Investment Income	Underwriting Income	Net Income
2003	\$31,219	\$50	\$0	\$0	\$830	\$(136)	\$694
2002	30,526	50	0	0	1,079	(4360)	(3,281)
2001	33,806	50	0	0	2,104	(83)	2,021
2000	51,822	10	5	0	2,028	(97)	1,931
1999	40,565	658	0	0	1,975	(728)	1,248

At year-end 2003, only 6 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>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Direct	\$0	\$0	\$0	\$0	\$0
Assumed	0	0	0	0	0
Ceded	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company does not cede business.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The annual statement is prepared by the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2003, 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, 2003

Bonds	\$ 999
Cash on Deposit	29,835
Premium Uncollected	35
Interest Due and Accrued	350

Total Assets	<u>\$ 31,219</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

December 31, 2003

Unearned Premium	\$ 50

Total Liabilities	\$ 50

Surplus Notes (Note 1)	\$ 31,735
Other Surplus	(566)

Total Surplus	\$ 31,169

Total Liabilities and Surplus	<u>\$ 31,219</u>

STATEMENT OF INCOME
For the Year Ended December 31, 2003

Net Assessments	\$ 0
Underwriting Expenses	(136)

Net Underwriting Income (Loss)	\$ (136)
Investment Income	\$ 830

Net Income	<u>\$ 694</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2003

Policyholders' Surplus, December 31, 2002	\$ 30,525
Net Income	694

Policyholders' Surplus, December 31, 2003	<u>\$ 31,219</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Surplus Notes

The account balance consists of surplus notes issued by the Company to the Company's Treasurer. The notes were issued on April 26, 1989, with a total face value of \$31,735 and a rate of 8.5% per annum. In 2001, the Missouri Department of Insurance approved the Company's payment of interest on the note of \$20,036. The payment represented the Company's surplus balance in excess of the surplus note principal balance at December 31, 2000.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Management (Pages 3 & 4)

It is recommended the Company abide by the provisions of the Articles of Incorporation regarding the annual meeting date and the terms of directors.

Management (Page 4)

It is recommended the Company ensure compliance with Section 380.041 RSMo. (Board of directors) regarding the number of directors appointed by the Company's membership.

Corporate Records (Page 5)

It is recommended the Company submit the proper filing of its Amended and Restated Articles of Incorporation to the Missouri Department of Insurance.

It is recommended the Company gain the approval of the membership for the Amended and Restated By-Laws and document such approval in the membership meeting minutes.

Corporate Records (Page 6)

It is recommended that the Board of Directors put more Company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

Fidelity Bond and Other Insurance (Page 6)

It is recommended that the Company obtain sufficient insurance coverages when it recommences business.

SUBSEQUENT EVENTS

None.

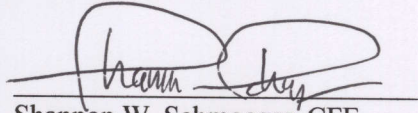
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

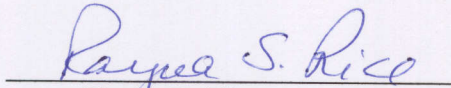
I, Shannon W. Schmoeger, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony 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 Department of Insurance

Sworn to and subscribed before me this 2nd day of February, 2005.

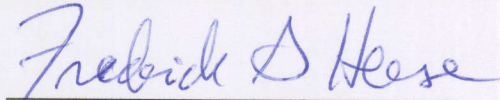
My commission expires:

Oct. 7, 2005
RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005


Notary Public

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.


Frederick G. Heese, CPA, CFE
Audit Manager - Kansas City
Missouri Department of Insurance

