

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

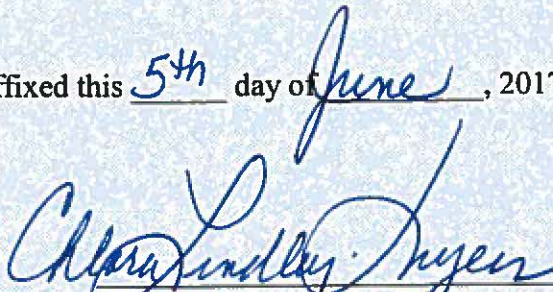
ORDER

After full consideration and review of the report of the financial examination of Farmers and Laborers Cooperative Insurance Association of Audrain County for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Farmers and Laborers Cooperative Insurance Association of Audrain County 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) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) 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 5th day of June, 2017.

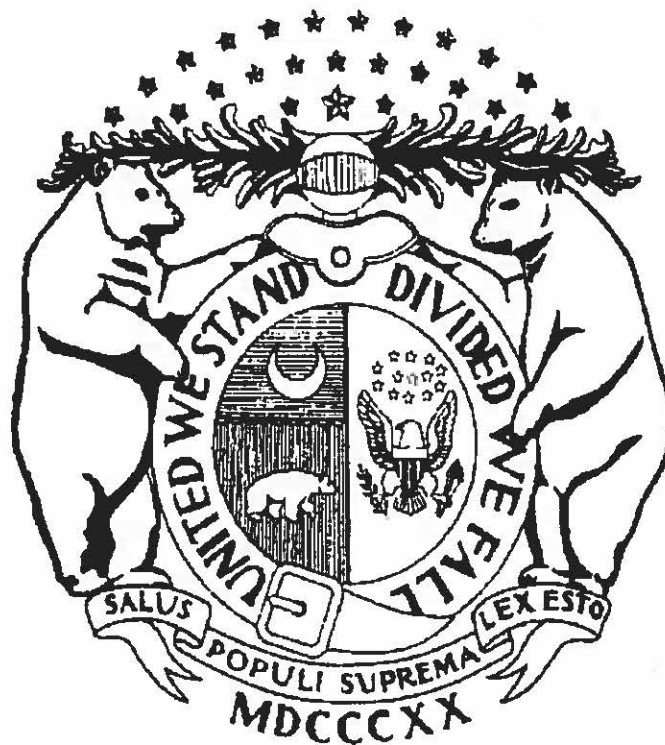



Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF**

**Farmers and Laborers Cooperative Insurance Association of
Audrain County**

**AS OF
DECEMBER 31, 2015**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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December 28, 2016
Mexico, 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

Director Huff:

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

Farmers and Laborers Cooperative Insurance Association of Audrain County

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 1005 West Monroe Street, Mexico, Missouri 65265, telephone number (573) 581-1360. This examination began on December 27, 2016 concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2010 and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2011 through December 31, 2015 and was also conducted by examiners from the 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.

HISTORY

General

The Company was organized and incorporated on April 6, 1891 as Farmers and Laborers Cooperative Insurance Association. On October 9, 1962, the Company amended its Articles of Incorporation and changed its name to Farmers and Laborers Cooperative Insurance Association of Audrain County. In February 1985, the Company amended its Articles of Incorporation to comply with Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company has a Certificate of Authority dated July 1, 1991 which was issued by the Missouri Department of Insurance, now known as the DIFP.

Management

The annual meeting of the Company's members is held on the second Tuesday in February, at the home office of the Company, or at such other place as may be designated by the Executive Committee. 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. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not addressed in the Articles of Incorporation or the Bylaws.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Director consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets every quarter, and each director is compensated \$50 per hour with a \$100 minimum for each meeting attended.

The Board consisted of the following members as of December 31, 2015:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Alvin Wagner Rush Hill, MO	Farmer	2018
Harry Riechers Mexico, MO	Farmer	2018
Lloyd Bruns Thompson, MO	Farmer	2019
Dan Kilbourn Centralia, MO	Building/Mechanical Maintenance	2019

Keith Dowell Mexico, MO	Farmer/Business Owner	2017
Jon Robnett Laddonia, MO	Farmer	2018
Rennie Davis Vandalia, MO	Farmer	2017

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, 2015 were as follows:

Harry Riechers	President
Jon Robnett	Vice-President
Greg Sudbrock	Secretary-Treasurer

Conflict of Interest

The Company requires its directors and officers to complete conflict of interest disclosures on an annual basis, and the completed conflict of interest statements are reviewed by the Board of Directors for any possible conflicts requiring resolutions. No significant conflict of interest were reported for the years under examination.

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 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 has fidelity bond coverage providing a liability limit of \$125,000. The fidelity bond coverage meets the minimum coverage of \$125,000 suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers, as well as errors and omissions coverage for its captive agents. The Company's independent agent is required to obtain errors and omissions coverage on his own behalf. The Company also carries property and general liability coverage on its home office, as well as workers compensation and employer's liability insurance.

EMPLOYEE BENEFITS

The Company has two full-time employees, who provide office support. No employee benefits, outside of paid time off, are provided by the Company.

In addition to serving as an officer, the Company's Secretary/Treasurer is also the Company's Manager and one of its agents. The Manager is considered an independent contractor and receives a commission based upon the Company's premiums.

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 380.591 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The Company writes fire and windstorm coverages on a direct basis and markets liability coverage through an agreement with its reinsurer.

Insurance products are sold by three captive agents and one independent agent, and commission rates range from 10.5% to 15%, depending on the individual contract. The majority of the Company's business is concentrated in Audrain and Texas counties and the surrounding areas. Insurance is provided on a non-assessable basis. The Company advertises through local newspaper and radio advertisements, community involvement and with other promotional items such as pens, caps and calendars.

Policy Forms and Underwriting Practices

The Company uses Grinnell Mutual Reinsurance Company policy forms, and policies are written on a continuous renewable basis. Property inspections are performed by the writing agent prior to the issuance of a policy and underwriting is performed by the Company's Manager. Renewals are inspected approximately every third year. The Company primarily contracts with its reinsurer for claims adjustment services, and utilizes other independent adjusters as needed. Some smaller claims are adjusted in-house.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2015	\$13,745,923	\$1,388,032	\$2,209,593	\$ 866,539	\$ 325,562	\$ 296,752	\$ 589,268
2014	13,063,838	1,295,215	2,136,470	1,193,173	313,015	2,657	301,908
2013	12,731,038	1,264,319	2,113,422	998,651	342,187	135,423	468,987
2012	12,057,921	1,068,198	1,991,990	1,296,829	448,928	(24,373)	379,160
2011	11,582,720	972,157	1,839,188	1,803,668	437,136	(749,872)	(360,167)

At year-end 2015, there were 2,962 policies 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:

	2015	2014	2013	2012	2011
Direct	\$2,209,593	\$2,136,470	\$2,113,422	\$1,991,990	\$1,839,188
Assumed	0	0	0	0	0
Ceded	453,919	384,822	312,480	263,845	221,755
Net	\$1,755,674	\$1,751,648	\$1,800,942	\$1,728,145	\$1,617,433

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has a property aggregate excess of loss reinsurance agreement with Grinnell Mutual Reinsurance Company. Under the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's fire-year loss ratio, plus a negotiated load. The reinsurer is liable for 100% of the losses in excess of this retention. The attachment point for the 2015 contract year was \$2,341,031.

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 an accrual basis. Accounting records for premiums, claims and financial reporting consist of paper files and are either processed manually or are transferred to a personal computer and processed electronically using a software package developed by Rural Computer Consultants. The Company prepares the Annual Statement. The CPA firm of Cochran, Head, Vick & CO., P.C. performs an annual compilation of the Company's financial statements and prepares the Company's tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2015 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.

ASSETS
December 31, 2015

Bonds	\$12,426,050
Mutual Funds	501,348
Real Estate	182,958
Cash on Deposit	491,911
Premium/Assessment/Agent's Balance Uncollected	140,230
Computer Equipment	3,426
	<hr/>
Total Assets	<u>\$13,745,923</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Net Losses Unpaid	\$ 63,375
Ceded Reinsurance Premium Payable	56,153
Unearned Premium	1,132,019
Federal Income Tax Payable	99,634
Account Payable - Other	2,682
Premiums Collected in Advance	34,169
	<hr/>
Total Liabilities	<u>\$ 1,388,032</u>
Guaranty Fund	\$ 150,000
Other Surplus	12,207,891
	<hr/>
Total Surplus	<u>12,357,891</u>
Total Liabilities and Surplus	<u>\$13,745,923</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Premiums Earned	\$1,740,371
Other Insurance Income	55,893
Net Losses & Loss Adjusting Expenses Incurred	(903,092)
Other Underwriting Expenses Incurred	<u>(596,420)</u>
Net Underwriting Income (Loss)	296,752
Net Investment Income	<u>325,562</u>
Gross Profit (Loss)	622,314
Federal Income Tax	<u>(33,046)</u>
Net Income (Loss)	<u>\$ 589,268</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2014	\$11,768,623
Net Income (Loss)	<u>589,268</u>
Policyholders' Surplus, December 31, 2015	<u>\$12,357,891</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of Farmers and Laborers Cooperative Insurance Association of Audrain County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Marc Peterson 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.

Marc Peterson

Marc Peterson, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 28nd day of February 2017.

My commission expires:

March 30, 2019

Hailey Luebbert
Notary Public

HAILEY LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: March 30, 2019
Commission Number: 15634366

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
Senior Examiner-In-Charge
Missouri DIFP