



**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 of Henry County,
Missouri for the period ended December 31, 2015

ORDER

After full consideration and review of the report of the financial examination of Henry County Mutual Insurance Company of Henry County, Missouri 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, 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 Henry County Mutual Insurance Company of Henry County, Missouri 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 16th day of OCTOBER, 2017.

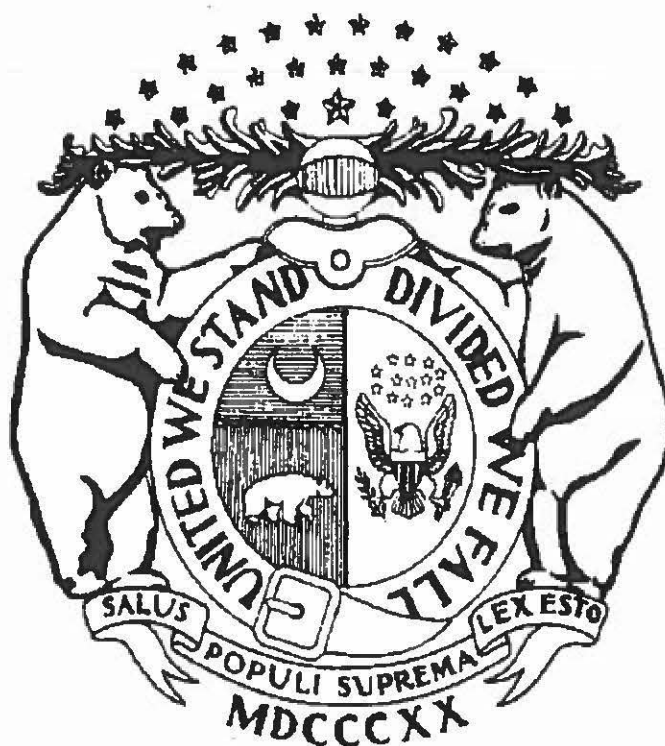


Chlora Lindley-Myers

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

**REPORT OF THE
FINANCIAL EXAMINATION OF
HENRY COUNTY MUTUAL INSURANCE COMPANY
OF HENRY COUNTY, MISSOURI**

**AS OF
DECEMBER 31, 2015**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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March 13, 2017
Clinton, Missouri

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

**HENRY COUNTY MUTUAL INSURANCE COMPANY OF HENRY COUNTY,
MISSOURI**

hereinafter referred to as such, or as the "Company" or "Henry County". The Company's home office and principal place of business is located at 325 North Second Street (P.O. Box 130), Clinton, Missouri 64735, telephone number (660) 885-4221. This examination began on March 7, 2017, was 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 State of Missouri. The current full-scope examination covers the period from January 1, 2011 through December 31, 2015, 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.

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 of Henry County, Missouri.

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 second 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.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. The Board of Directors meets every quarter. All Directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2015 were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Jeff Stone Clinton, Missouri	Insurance Agent	2014-2017
Dena Gray Clinton, Missouri	Property Manager	2013-2016
Sarah Shoemaker Calhoun, Missouri	Insurance/Real Estate Agent	2015-2018
Richard Wirsig Clinton, Missouri	Business Owner	2013-2016
Tracy Hilty Deepwater, Missouri	Insurance Agent	2014-2017

Don Bruns Clinton, Missouri	Retired	2015-2018
Matt Jones Clinton, Missouri	Farmer	2014-2017

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary/Treasurer. The officers of the Company serving at December 31, 2015, were as follows:

Jeff Stone ¹	President
Dena Gray	Vice-President
Jessica Eaton	Secretary/Treasurer

¹ Resigned and was replaced by Sarah Shoemaker in April of 2016.

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. No other significant potential conflict disclosures were noted.

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.

Holding Company, Subsidiaries and Affiliates

The Company has a wholly owned subsidiary, Henry County Mutual Insurance Agency (Agency). The entities have a Memorandum of Understanding under which the Company provides services and office space for the day to day operations of the Agency. The Agency reimburses the Company for the costs at rates to be determined by the Board of Directors of the Company. As of December 31, 2015, the monthly reimbursement rate was \$2,000.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000. The fidelity bond coverage of the Company meets the minimum coverage of \$75,000 suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. The Company's agents are responsible for purchasing their own errors and omissions coverage.

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

EMPLOYEE BENEFITS

The Company has six full-time employees and two part-time employees. The full-time employees' benefits package includes paid time off; health, life, dental and vision insurance; and Company matching of contributions to 401(k) retirement plan accounts.

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, windstorm, and liability coverage statewide and offers all of these coverages. The policies are sold by four licensed producers, three of which are also directors of the Company. The producers receive a 14% commission on all new and renewal business.

Policy Forms and Underwriting Practices

The Company utilizes a combination of AAIS and MAMIC policy forms. The policies are written on an annual renewable basis. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured or mortgagee as applicable. Property inspections are performed by an in-house inspector prior to the issuance of a policy and every three years thereafter. Underwriting is performed by the Company. Claims are handled by the in-house adjuster or by contracted adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Admitted Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2015	\$2,838,503	\$1,016,588	\$2,489,885	\$1,193,807	\$32,462	\$ (274,733)	\$ (216,041)
2014	3,093,533	1,000,883	2,704,526	1,228,375	62,951	114,977	199,816
2013	3,042,848	1,213,430	2,825,608	1,034,481	23,203	316,617	420,520
2012	2,646,160	1,232,237	2,891,006	1,582,679	12,385	270,081	350,492
2011	2,963,777	1,899,448	2,952,131	3,654,209	31,740	(542,068)	(371,968)

At year-end 2015, the Company had 3,064 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:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Direct	\$2,473,670	\$2,687,217	\$2,815,152	\$2,880,096	\$2,941,838
Assumed	16,215	17,309	10,456	10,910	10,293
Ceded	908,569	1,018,940	994,295	1,140,727	1,094,415
Net	<u>\$1,581,316</u>	<u>\$1,685,586</u>	<u>\$1,831,313</u>	<u>\$1,750,279</u>	<u>\$1,857,716</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes to the pool 89% of the premiums and losses applicable to the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and to the first \$3,000,000 each claim and in aggregate on all officer and director liability policies. MMIC 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 Company (the Reinsurer) under a single contract with multiple sections covering property and liability risks.

Under the three-layer property per risk section of the agreement, the Company retains \$85,000 per risk and the reinsurer is responsible for the excess, limited to \$715,000 per risk. Under the aggregate excess of loss agreement, the reinsurer is liable for 100% of losses which exceed 72.5% of the Company's net premium income during the year.

Under the casualty quota share agreement, the Company cedes 100% of the casualty premiums and losses to the reinsurer, and receives a 20% 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 an accrual basis. The accounting firm of Van de Ven, LLC, performs a financial statement compilation, prepares the annual statement, and provides tax preparation services for the Company. Accounting records for premiums, claims and financial reporting are maintained on a personal computer-based package provided by IMT Computer Services. Backups are completed automatically every fifteen minutes to an off-site location.

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	\$ 505,600
Mutual Funds	360,870
Real Estate	146,057
Cash on Deposit	1,562,494
Other Investments (Note 1)	172,524
Reinsurance Recoverable	162
Computer Equipment	24,985
Interest Due and Accrued	5,242
Prepaid Insurance	2,829
Funds Held by Reinsurer	1,043
Ceded Reinsurance Premium Receivable	<u>56,697</u>
 Total Assets	 <u>\$ 2,838,503</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Net Losses Unpaid	\$ 109,517
Unearned Premium	897,138
Accrued Vacation	<u>9,933</u>
 Total Liabilities	 <u>1,016,588</u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>1,671,915</u>
 Total Surplus	 <u>1,821,915</u>
 Total Liabilities and Surplus	 <u>\$ 2,838,503</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Premiums Earned	\$ 1,652,617
Other Insurance Income	146,584
Net Losses & Loss Adjusting Expenses Incurred	(1,260,176)
Other Underwriting Expenses Incurred	<u>(813,218)</u>
Net Underwriting Income (Loss)	(274,733)
Net Investment Income	32,462
Other Income	<u>26,230</u>
Gross Profit (Loss)	(216,041)
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ (216,041)</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2014	\$ 2,092,650
Examination Change – Investment in Agency (Note 1)	(163,433)
Net Income (Loss)	(216,041)
Mutual Funds Market Adjustment	(6,159)
Non-Admitted Mutual Funds Adjustment	94,515
Non-Admitted Note Receivable Collected	<u>20,383</u>
Policyholders' Surplus, December 31, 2015	<u>\$ 1,821,915</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Other Investments

The Company reported an asset for Investment in Agency of \$163,433 at December 31, 2015. The Company was unable to provide adequate documentation to support the Investment in Agency as an admitted asset. An examination change was made to reduce the asset for Investment in Agency from \$163,433 to \$0.

EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2015			\$ 1,985,348
	Increase in Surplus	Decrease in Surplus	
Investment In Agency	\$ 0	\$ (163,433)	
	-----	-----	
Total Change	<u>\$ 0</u>	<u>\$ (163,433)</u>	<u>(163,433)</u>
Total Policyholder Surplus Per Examination, December 31, 2015			<u>\$ 1,821,915</u>

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company either maintain adequate documentation to support the balance reported for the Investment in Agency or non-admit the Investment in Agency balance on future Annual Statement filings.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Kansas)
)
County of Johnson)

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

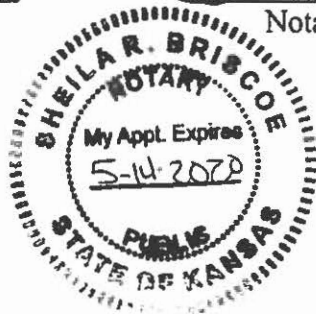
Marc Peterson, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 19 day of April, 2017.

My commission expires:

5-14-2020
Sheila R. Briscoe

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.



Mark Nance, CFE, CPA
Senior Examiner-In-Charge
Missouri DIFP