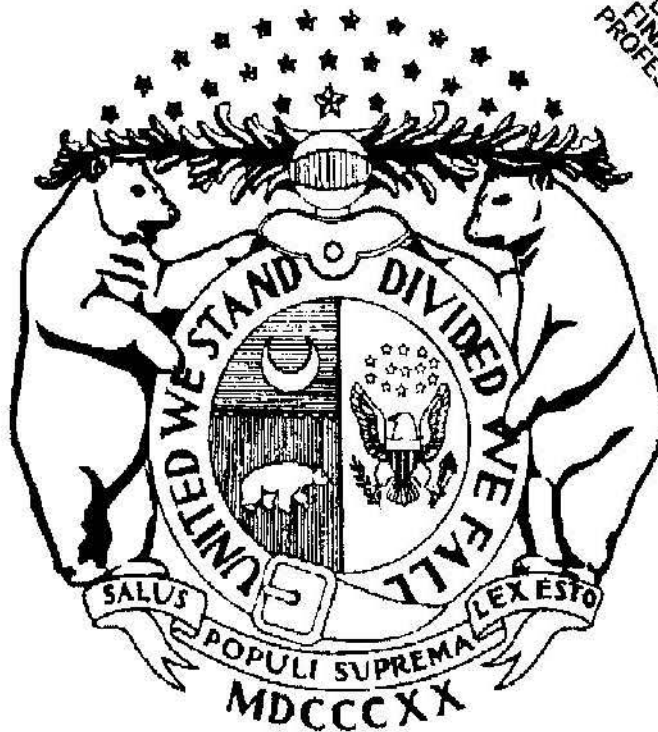


REPORT OF THE  
FINANCIAL EXAMINATION OF  
HIGHLAND MUTUAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2007



**FILED**  
JUN 15 2009  
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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March 2, 2009  
California, 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

### **HIGHLAND MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 104 East Third Street (P.O. Box 47), California, Missouri 65018, telephone number (573) 796-3614. This examination began on November 12, 2008, and was concluded on November 13, 2008, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, 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**

The comments, recommendations, and notes of the previous examination report dated December 31, 2002, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Fidelity Bond and Other Insurance**

*Comment:* It was recommended the Company obtain liability insurance coverage for its officers and directors.

*Company Response:* The Company obtained directors and officers liability insurance.

*Current Findings:* The Company currently carries liability insurance on its directors and officers.

#### **Accounts and Records**

*Comment:* It was recommended the Company properly complete future Annual Statements in the format provided.

*Company Response:* The Company will correct the identified issues on future Annual Statements.

*Current Findings:* Similar errors were noted in the Company's completion of the Annual Statements during the current examination period (See the Accounts and Records section of this report).

## **HISTORY**

### **General**

The Company was originally organized and incorporated on May 29, 1895, as Highland Farmer's Fire and Lightning Insurance Association and subsequently changed its name to Highland Mutual Insurance Company. On January 1, 2002, the Company merged with Jamestown Fire Insurance Company, with Highland Mutual being the surviving entity. The Company merged with Hazel Dell Mutual Insurance Company on January 1, 2006, with Highland Mutual being the surviving entity. Effective September 1, 2006, the Company merged with German Salem Aid Association of Missouri, with Highland Mutual being the surviving entity.

The Company has a Certificate of Authority dated June 17, 1993, 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 last Saturday in February at the home office of the Company. 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. Quorum requirements and proxy voting are not addressed in the Articles of Incorporation.

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 ten members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and the directors are compensated \$75 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Larry Rohrbach 25420 Highway D California, Missouri	Farmer/Lobbyist	2006-2009
Paul Hoellering 57535 Oak Grove Road California, Missouri	Farmer	2005-2008
Danny Haldiman 24227 Bacon Bridge Road Jamestown, Missouri	Surveyor/Farmer	2005-2008
James Cox 17820 Meadowbrook Road Barnett, Missouri	Farmer/Bus Driver	2006-2009
Kenneth Howard 59041 Deer Run Road California, Missouri	Farmer/Meat Cutter	2007-2010

Robert Dcnker, Sr. 36642 Strawberry Road California, Missouri	Farmer/Retired Teacher	2006-2009
Fred Snyder 60814 Highway C, Box 22 High Point, Missouri	Farmer	2007-2010
Jerry Gerlt 16943 Highway C Barnett, Missouri	Farmer/Mail Carrier	2005-2008
Donald Wyss 55790 Highway A Russellville, Missouri	Retired School Administrator	2007-2010
Dan Schroeder 9621 Shikles Road Russellville, Missouri	Farmer	2007-2010

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, 2007, were as follows:

Larry Rohrbach	President
Paul Hoellering	Vice-President
Joyce M. Rohrbach	Secretary
Lisa Rohrbach	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. No significant conflicts were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended on November 29, 2005 to increase the number of directors from six to eight, and again on July 10, 2006 to increase the number of directors from eight to ten. On October 31, 2007, the Bylaws were amended to prohibit directors from also serving as Secretary, Treasurer or as an agent, and to allow for a single authorized signature for the transfer of funds to the general checking account.

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, which provides a limit of liability of \$100,000, with a \$5,000 per loss deductible. The fidelity bond coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company is a named insured on a directors and officers liability policy with an aggregate limit of \$500,000 and an aggregate deductible of \$5,000 per claim.

The Company carries errors and omissions coverage on its agents.

The Company self-insures its personal property and premises liability coverages. The low-limit personal property coverage is retained by the Company while the premises liability coverage is 100% ceded under the Company's reinsurance program.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has one full-time and one part-time employee. The Company does not offer a benefits package to its employees.

### **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, wind and liability coverages. The

Company's policies are sold by three agents. Agents receive a 12% commission, \$12.50 for each new policy and \$15.00 for each renewal submitted in a timely fashion.

**Policy Forms and Underwriting Practices**

The Company utilizes AAIS, MAMIC, Grinnell Mutual Reinsurance Company and custom policy forms. The policies are renewed every three years. Property inspections and adjusting functions are performed by agents. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

**GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2007	\$3,540,585	\$247,147	\$386,914	\$273,990	\$ (80,961)	\$ 94,281
2006	3,443,855	156,755	540,734	172,134	235	165,693
2005	1,379,321	109,179	270,401	107,821	22,435	81,367
2004	1,291,398	102,324	237,238	75,376	5,690	68,141
2003	1,201,078	80,412	205,376	61,731	41,322	100,897

At year-end 2007, 1,200 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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct	\$ 205,376	\$ 237,238	\$ 270,401	\$ 540,734	\$386,914
Assumed	0	0	0	0	0
Ceded	(83,175)	(78,821)	(81,877)	(165,782)	(155,849)
Net	<u>\$ 122,202</u>	<u>\$ 158,417</u>	<u>\$ 188,524</u>	<u>\$ 374,952</u>	<u>\$ 231,065</u>



### **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 excess with aggregate excess plan reinsurance agreement.

The individual occurrence of loss section of the agreement covers property risks. The Company retains \$50,000 per occurrence and the reinsurer's limits are \$500,000 for commercial and public property and livestock, poultry and horse operations and \$750,000 for dwellings and farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2007 was \$.3829 for fire and \$.1266 for wind per \$1,000 of adjusted gross fire risks in force. Effective January 1, 2008, the Company's per occurrence retention increased to \$75,000.

The aggregate excess section of the agreement covers property risks. 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 2007 was \$269,308 and the annual premium paid was \$.4171 per \$1,000 of adjusted gross fire risks in force.

The agreement also provides quota share reinsurance coverage for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability 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 Company maintains its records on a modified cash basis. Evers & Company, CPAs, LLC, prepares the Company's tax filings.

The Company did not perform formal bank reconciliations during the examination period. It is recommended the Company perform formal bank reconciliations on a monthly basis. The

reconciliations should clearly present the bank balance, any outstanding and reconciling amounts and reconciled balance.

The Company made several errors in the completion of the 2007 Annual Statement. The guaranty fund balance was not properly included in "Total Policyholder Surplus" on Page 1. The change in unearned premium adjustment was not included on Page 2. "Total Liabilities and Surplus" rather than "Total Policyholder Surplus" from Page 1 was used to complete The "Gain or Loss in Surplus" section of Page 5, which resulted in other errors in this section. It is recommended the Company properly complete future Annual Statement filings.

The Company has attempted to convert its reporting of investment income from a cash to accrual basis; however, it appears the Company currently reports interest income as a mixture of accrual and cash bases. As a result, the Company must adjust surplus at year end to reflect the differences, but is unable to provide detailed support of the adjustment. It is recommended the Company report interest income on a consistent basis in future Annual Statement filings and retain detail of any resulting surplus adjustments.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, 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, 2007**

Bonds	\$ 602,276
Cash on Deposit	2,938,309
	-----
Total Assets	<u><u>\$ 3,540,585</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2007**

Losses Unpaid	\$ 42,500
Loss Adjusting Expense Unpaid	500
Ceded Reinsurance Premium Payable	11,873
Unearned Assessments	192,274
	-----
Total Liabilities	\$ 247,147
	-----
Guaranty Fund	\$ 150,000
Other Surplus	3,143,438
	-----
Total Surplus	3,293,438
	-----
Total Liabilities and Surplus	<u><u>\$ 3,540,585</u></u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2007**

Net Assessments Earned	\$ 231,065
Other Insurance Income	1,475
Net Losses & Loss Adjustment Expenses Incurred	(166,411)
Other Underwriting Expenses Incurred	(147,090)
	-----
Net Underwriting Income (Loss)	\$ (80,961)
Investment Income	174,792
Other Income	450
	-----
Gross Profit (Loss)	\$ 94,281
Federal Income Tax	(0)
	-----
Net Income (Loss)	<u>\$ 94,281</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2007**

Policyholders' Surplus, December 31, 2006 (Note 1)	\$ 3,287,100
Net Income (Loss)	94,281
Earned Premium Adjustment -- Change in Unearned Premium (Note 2)	(77,274)
Accrued Interest Adjustment (Note 1)	(10,669)
	-----
Policyholders' Surplus, December 31, 2007	<u>\$ 3,293,438</u>

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 – Gain or Loss in Surplus Schedule**

The Company made several errors in the completion of the “Gain or Loss in Surplus” section on Page 5 of the 2007 Annual Statement. This included beginning the calculation with “Total Liabilities and Surplus”, rather than “Total Policyholder Surplus,” which resulted in the required examiner adjustment in this line as well as reconciling items (See the “Accounts and Records” section of this report).

### **Note 2 – Change in Unearned Premium Adjustment**

The Company failed to adjust written premiums by the change in unearned premiums to calculate earned premiums on Page 2 of the 2007 Annual Statement. This adjustment was properly reported by the Company in the years prior to 2007. Surplus was adjusted above to reflect this change in unearned premiums (See the “Accounts and Records” section of this report).

## EXAMINATION CHANGES

As disclosed in Notes 1 and 2 above, the only examination change was to adjust the figures in the reconciliation of surplus. The changes did not affect the amount of total surplus reported by the Company.

## GENERAL COMMENTS AND RECOMMENDATIONS

### **Accounts and Records (Page 7)**

It is recommended the Company perform formal bank reconciliations on a monthly basis. The reconciliations should clearly present the bank balance, any outstanding and reconciling amounts and reconciled balance.

It is recommended the Company properly complete future Annual Statement filings.

It is recommended the Company report interest income on a consistent basis in future Annual Statement filings and retain detail of any resulting surplus adjustments.

## **SUBSEQUENT EVENTS**

**None.**


**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Highland 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.

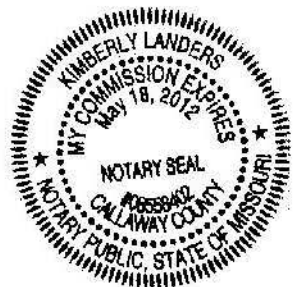
  
\_\_\_\_\_  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 9<sup>th</sup> day of March, 2009.

My commission expires:

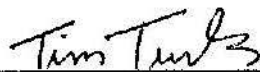
May 18 2012

  
\_\_\_\_\_  
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.

  
\_\_\_\_\_  
Tim Tunks, CFE, CPA  
Examiner In Charge  
Missouri DIFP

# Highland Mutual Insurance Co.

P.O. Box 47, 104 East Third Street  
California, MO 65018

Telephone & Fax No. 573 796-3614

*"Neighbors Helping Neighbors" since 1895*

Wayne Bueker, Agent  
33549 Wayne Rd.  
California, MO 65018  
573 796-3503

Michael English, Agent  
54911 English Rd.  
California, MO 65018  
573 796-4692

Jerry Wolfrum, Agent  
32165 Wieneke Branch Rd.  
California, MO 65018  
573 796-3309

Larry Rohrbach, President  
Robert Denker, Vice President  
Joyce M. Rohrbach, Secretary  
Hope Hoellering, Treasurer

June 8, 2009

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

Dear Mr. Heese:

We are in receipt of the copy of the Examination Report of Highland Mutual Insurance Company for the period ending December 31, 2007. The following is in response to page 11 regarding General Comments and/or Recommendations which may be included in the report as a public document:

- A. Please be advised that effective November 2008, a written report reflecting outstanding checks and deposits thereby reconciling amounts and balances is prepared and filed monthly with the bank statements.
- B. In an effort to properly complete the Annual Statement filings, a copy of the Annual Statement Instructions has been obtained, and the treasurer and secretary will review document in determining correct figures in compiling "Total Policyholder Surplus", as well as what figures are to be included in various report lines.
- C. In regards to income, the practice will be to report interest figures as noted on the 1099's provided by financial institutions and to note values as of December 31<sup>st</sup> of zero coupon bonds and certificate of deposits from information provided by the investment company where items were purchased.

Upon receiving your authorization, this report and the response will be shared with the board of directors and other interested policyholders.

Mutually,

  
Larry Rohrbach  
President

JMR

Formerly Highland Mutual Ins. Co., Jamestown Fire Ins. Co., Hazel Dell Mutual Ins. Co., and German Salem Aid Assn. of Mo.