



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

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

RE: Examination Report of Martinsburg Mutual Insurance Company for the period ended
December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Martinsburg Mutual Insurance Company for the period ended December 31, 2016, 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 Martinsburg 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) 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.

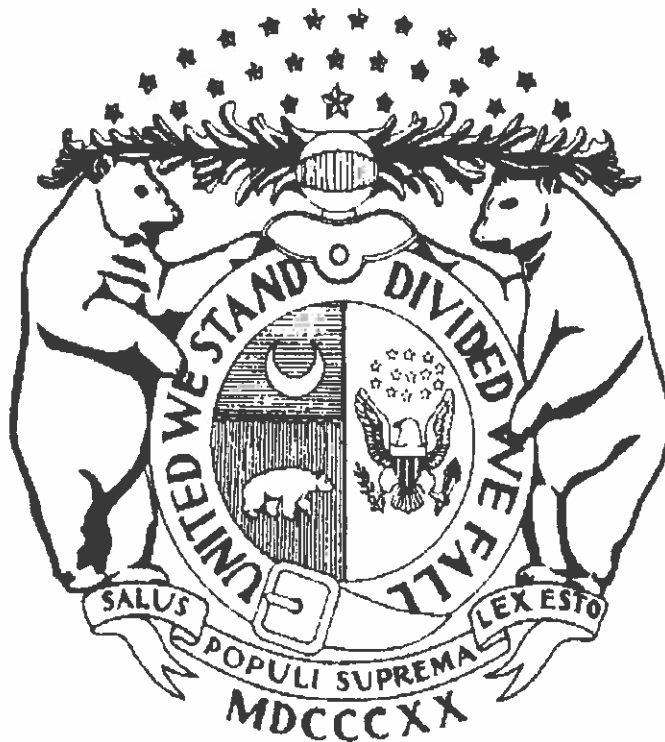
So ordered, signed and official seal affixed this 14th day of September, 2018.



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

**REPORT OF THE
FINANCIAL EXAMINATION OF
MARTINSBURG MUTUAL INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2016**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	3
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	4
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	5
Ceded	5
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	
Assets	7
Liabilities, Surplus and Other Funds	7
Statement of Income	8
Capital and Surplus Account	8
NOTES TO THE FINANCIAL STATEMENTS	9
EXAMINATION CHANGES	9
SUMMARY OF RECOMMENDATIONS	9
SUBSEQUENT EVENTS	9
ACKNOWLEDGMENT	10
VERIFICATION	10
SUPERVISION	11

December 13, 2017
Martinsburg, 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 your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

MARTINSBURG MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the Company. The Company's administrative office is located at 104 Jefferson Street (P.O. Box 171), Martinsburg, Missouri 65264, telephone number (573) 492-6168. This examination began on December 6, 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, 2011 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, 2012 through December 31, 2016, 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 originally organized in 1905, and was incorporated on December 31, 1984 as Martinsburg Mutual Insurance Company.

The Company has a Certificate of Authority dated March 9, 2001 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

The annual meeting of the Company's members is held on the second Thursday in March; however, the filed Articles of Incorporation state the annual meeting of the Company's members is to be held on the second Saturday in January (See the Corporate Records section below). Special meetings of the members may be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

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. All directors must be policyholders of the Company. The Board of Directors meets approximately twice a year, and each director is compensated \$200 per year.

Members serving on the Board of Directors as of December 31, 2016, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Martin Bertels Ladonia, Missouri	Farmer/Crop Adjuster	2016-2019
Jim Hale Martinsburg, Missouri	Farmer	2015-2018
Martin Aulbur Martinsburg, Missouri	Farmer	2014-2017
Mike Fennewald Martinsburg, Missouri	Farmer	2014-2017
Jim Gastler Martinsburg, Missouri	Farmer/Insurance Agent	2014-2017

Rodney Willingham Martinsburg, Missouri	Farmer	2016-2019
--	--------	-----------

Robert Dubbert Ladonia, Missouri	Farmer	2015-2018
-------------------------------------	--------	-----------

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, 2016, were as follows:

Martin Bertels	President
Jim Hale	Vice-President
Linda Gastler	Secretary/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. A review of the statements noted no significant disclosures. Potential significant conflicts noted during the examination included the Company's sole agent also serves on the Board of Directors, and his spouse is the Company's sole employee and Secretary/Treasurer.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company, neither of which were amended during the examination period. Prior to the examination period, the Company membership approved amendments to the Articles of Incorporation which included changing the date of the annual membership meeting and adding the liability line as an authorized line of business. However, the Company did not properly file the amendments with the DIFP in accordance with Section 380.241 RSMo (Amendment to articles and bylaws, procedures – fee). As a result, the amendments were not formalized with the DIFP or the Missouri Secretary of State.

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 providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and errors and omissions insurance for its agent, as well as business property and liability insurance on the home office.

EMPLOYEE BENEFITS

The Company has one full-time employee, who is also the Company Secretary/Treasurer. The employee received no additional benefits outside of normal wages.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.2201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies). The Company writes fire, wind and liability coverages. The Company became a direct writer of liability coverages during the prior examination period, but failed to obtain an amended Certificate of Authority to allow for the ability to write this line of business.

The Company's policies are marketed by a single agent/director, who receives a fifteen percent commission on premiums written.

Policy Forms and Underwriting

The Company utilizes various policy forms including MAMIC, Grinnell Mutual Reinsurance Company, ACORD and AAIS forms. The policies are written on a continuous period. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by the Company's agent/director. Adjusting for larger claims is coordinated with Central Consulting and Adjusting Services. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2016	\$ 1,307,709	\$ 9,131	\$ 342,177	\$ 51,337	\$ 25,403	\$ 62,777	\$ 88,180
2015	1,220,331	9,933	330,352	159,540	25,619	(51,285)	(25,666)
2014	1,242,000	5,936	287,532	55,115	22,631	61,899	84,730
2013	1,154,976	3,642	247,298	65,680	18,844	29,926	49,532
2012	1,104,071	2,270	201,279	50,175	20,576	33,664	55,022

At year-end 2016, there were 193 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:

	2016	2015	2014	2013	2012
Direct	\$ 341,331	\$ 330,352	\$ 287,532	\$ 247,298	\$ 201,279
Assumed	-0-	-0-	-0-	-0-	-0-
Ceded	120,103	108,171	87,346	81,564	68,863
Net	\$ 221,228	\$ 222,181	\$ 200,186	\$ 165,734	\$ 132,416

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer). Property coverage is reinsured under a per risk excess of loss agreement and aggregate excess of loss agreement. Under the property per risk excess of loss agreement, the Company retains \$100,000 per risk, and the reinsurer covers 100% of the excess. Under the property aggregate excess of loss agreement, the reinsurer is liable for 100% of losses in excess of the Company's annual aggregate net retention, or attachment point. The attachment point for 2016 was \$145,000.

The Company reinsures liability coverage under a quota share agreement. The Company cedes 100% of these risks and premium 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 both electronically and manually by the Company on a cash basis. The Company utilizes Martinsburg Bank and Trust for accounting services that include maintaining a general ledger and preparing monthly financial reports and the annual statement. Tax filings are prepared by H&R Block.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2016, 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, 2016

Real Estate	\$ 13,304
Cash on Deposit	1,294,405
	<hr/>
Total Assets	\$ 1,307,709
	<hr/>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Payroll Tax Payable	\$ 9,131
	<hr/>
Total Liabilities	\$ 9,131
	<hr/>
Guaranty Fund	\$ 150,000
Other Surplus	1,148,578
	<hr/>
Total Surplus	\$ 1,298,578
	<hr/>
Total Liabilities and Surplus	\$ 1,307,709
	<hr/>

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 221,228
Other Insurance Income	6,391
Net Losses & Loss Adjusting Expenses Incurred	(53,901)
Other Underwriting Expenses Incurred	<u>(110,941)</u>
Net Underwriting Income (Loss)	\$ 62,777
Net Investment Income	<u>25,403</u>
Gross Profit (Loss)	\$ 88,180
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 88,180</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$ 1,210,398
Net Income (Loss)	<u>88,180</u>
Policyholders' Surplus, December 31, 2016	<u>\$ 1,298,578</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Corporate Records (Page 3)

A significant number of years have transpired since the membership's original approval of the amendments to the Articles of Incorporation in regard to the change in annual membership meeting date and the addition of the liability line of business authority. Since the amendments were never formalized, it is recommended the membership formally approve these amendments at a future membership meeting as soon as is practical in accordance with Section 380.241 RSMo (Amendment to articles and bylaws, procedures – fee). Subsequent to this approval, the Company should ensure the amendments are properly filed with the DIFP in accordance with aforementioned statute, utilizing Form 5 – Certificate of Amendment of Articles.

Territory and Plan of Operations (Page 4)

The Company should submit a completed Application for Certificate of Authority form to the DIFP requesting the addition of liability coverage to its authorized lines of business.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employee of Martinsburg Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Brian Hammann, CPA, examiner for the Missouri DIFP also participated in this examination.

VERIFICATION

State of Missouri)
)
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.

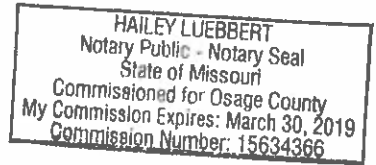


Shannon W. Schmoeger, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 15th day of August, 2018.

My commission expires:

March 30, 2019


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 Department of Insurance, Financial
Institutions and Professional Registration