



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

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

RE: Examination Report of Polk County Mutual Insurance Company for the period ended
December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Polk County Mutual Insurance Company for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, 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 Polk County 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 15th day of August, 2016.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

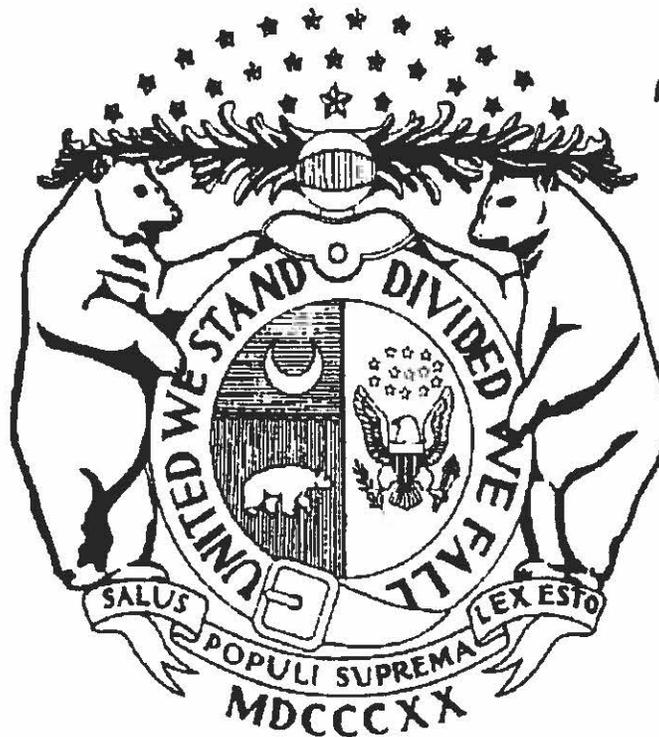
POLK COUNTY MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2014

FILED

AUG 15 2016

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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April 22, 2016
Bolivar, 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

POLK COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 705 West Fair Play, Bolivar, Missouri 65613, telephone number (417) 326-4914. This examination began on April 21, 2016, and was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2014, 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 originally established and incorporated on December 14, 1987, as Farmers Mutual Fire & Lightning Insurance Company of Polk County. On February, 27, 1985, the Company amended its Articles of Incorporation, changing its name to Polk County Mutual Insurance Company.

The Company has a Certificate of Authority dated 23, 1990 and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Monday 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 a majority of the members. Eight members shall constitute a quorum at any annual membership meeting. Proxy voting is permitted.

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 staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. The Board President receives a retainer of \$595 per month, and each director receives a retainer of \$395 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2014, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Arlene Lear Humansville, Missouri	Insurance Agency Owner	2014-2017
Larry Crocker Pittsburg, Missouri	Business Owner	2013-2016
Jerry Winfiel Bolivar, Missouri	Accountant	2013-2016
Eldon Fry Bolivar, Missouri	Farm Manager	2015-2018
Velma Lear Humansville, Missouri	Office Professional	2014-2017

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, 2014, were as follows:

Arlene Lear	President
Larry Crocker	Vice-President
Jerry Winfiel	Treasurer / Secretary

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 executed conflict of interest statements noted that all Board members completed the conflicts of interest forms and that any conflicts were properly disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not 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 is a named insured on a fidelity bond providing a limit of liability of \$ 100,000. 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 their directors and officers. Other insurance coverages carried by the Company include property insurance on its home office and contents as well as premises liability insurance and workers compensation coverage.

EMPLOYEE BENEFITS

The Company has four full-time employees. The benefits package offered to full-time employees includes health insurance and paid time off. The Company also matches a percentage of the employees' contributions to individual retirement 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. The Company is authorized to write fire, lightning, wind and liability insurance in all counties in the State of Missouri. The Company writes all of its authorized lines of business. The Company's policies are sold by sixty-five independent agents, who receive a fifteen percent commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections are performed by an employee inspector. The adjusting function is performed by a contracted adjuster. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2014	\$2,557,657	\$425,230	\$3,833,326	\$1,739,086	\$47,991	\$560,924	\$419,092
2013	\$2,491,720	\$779,888	\$3,876,715	\$1,723,177	\$32,832	\$219,202	\$176,030
2012	\$1,987,933	\$447,150	\$3,655,185	\$2,485,379	\$29,885	\$193,109	\$161,150
2011	\$1,655,047	\$285,037	\$3,031,678	\$3,064,863	\$34,819	\$9,446	\$ 41,964
2010	\$1,536,236	\$203,340	\$2,516,318	\$1,376,192	\$34,122	\$161,273	\$162,105

At year-end 2014, 4,486 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:

	2014	2013	2012	2011	2010
Direct	\$3,833,326	\$3,876,715	\$3,655,185	\$3,031,678	\$2,516,318
Ceded	802,964	1,050,000	2,581,036	2,169,602	1,943,958
Net	\$3,030,362	\$2,826,715	\$1,074,149	\$ 862,076	\$ 572,360

Assumed

The Company does not reinsure other companies.

Ceded

The Company's reinsurance for 2014 was with Axiom Re, Inc (Axiom). Under the first layer of a multi-line excess of loss agreement, Axiom was responsible for 100% of the loss in excess of the Company's retention of \$75,000 not to exceed \$425,000 each loss, each and every risk, subject to an occurrence limitation of \$850,000. Under the second layer of the agreement, Axiom, was 100% responsible for any amount in excess of \$500,000 each loss, each and every risk, subject to an occurrence limitation of \$500,000.

In addition to the multi-line excess of loss agreement, the Company had a four layer property catastrophe excess of loss agreement with Axiom. Under the layers of the agreement, Axiom was 100% responsible for an ultimate loss in excess of the Company's \$250,000 retention not to exceed \$7,750,000.

The Company's reinsurance program for 2014 did not meet all of the requirements of Missouri Code of Regulations (CSR) 200-12.030 (Extended Missouri and Missouri Mutual Companies' Financial Reinsurance Requirements). The Company requested and was granted a onetime exemption from the unmet requirements of the regulation provided the Company met certain guidelines established by the DIFP. For 2015 and 2016, the Company was able to obtain reinsurance that complied with requirements of CSR 200-12.030.

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's records are maintained on a modified cash basis. The CPA firm of Van De Ven, LLC prepares an annual compilation and the Company's Annual Statements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2014, 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, 2014

Bonds	\$ 933,288
Mutual Funds	151,701
Real Estate	24,687
Cash on Deposit	1,370,016
Computer Equipment	988
Interest Due and Accrued	13,031
Ceded Reinsurance Premium Receivable	58,281
Accounts Receivable	177
Prepaid Insurance	<u>5,488</u>
Total Assets	<u>\$ 2,557,657</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2014

Losses and LAE	\$ 253,685
Commissions Payable	52,685
Accrued Taxes	115,932
Other Liabilities	<u>2,928</u>
Total Liabilities	<u>\$ 425,230</u>
Guaranty Fund	780,574
Other Surplus	<u>1,351,853</u>
Total Surplus	<u>\$ 2,132,427</u>
Total Liabilities and Surplus	<u>\$ 2,557,657</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2014

Net Assessments Earned	\$ 3,030,362
Other Insurance Income	133,707
Net Losses & Loss Adjusting Expenses Incurred	(1,658,467)
Other Underwriting Expenses Incurred	(944,678)
Net Underwriting Income (Loss)	<u>\$ 560,924</u>
Net Investment Income	47,991
Other Income	<u>92</u>
Gross Profit (Loss)	\$ 609,007
Federal Income Tax	<u>(189,915)</u>
Net Income (Loss)	<u>\$ 419,092</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2014

Policyholders' Surplus, December 31, 2013	\$ 1,711,832
Net Income (Loss)	419,092
Mutual Funds Market Adjustment	<u>1,503</u>
Policyholders' Surplus, December 31, 2014	<u>\$ 2,132,427</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

As noted in the Reinsurance section of this report, for 2014 the Company was unable to obtain reinsurance that would fulfill all of the requirements of CSR 200-12.030. The Company requested and was granted an exemption from the requirements of the regulation provided the Company met certain other requirements. For the years 2015 and 2016, the Company has been able to obtain reinsurance in accordance with the requirements of the cited regulation.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Polk County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Jay Buschmann, AFE, and John Merrigan, CPA, examiners for the Missouri DIFP also participated in this examination.

VERIFICATION

State of Missouri
County of Jackson

I, Mark Nance 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.

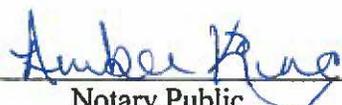


Mark Nance, CFE, CPA
Senior Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 26th day of May, 2016.

My commission expires:

5-27-2018



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.



Levi Nwasoria, CFE, CPA
Audit Manager
Missouri DIFP