



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

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

RE: Examination Report of Freistatt Mutual Insurance Company for the period ended
December 31, 2015

ORDER

After full consideration and review of the report of the financial examination of Freistatt Mutual Insurance Company 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.

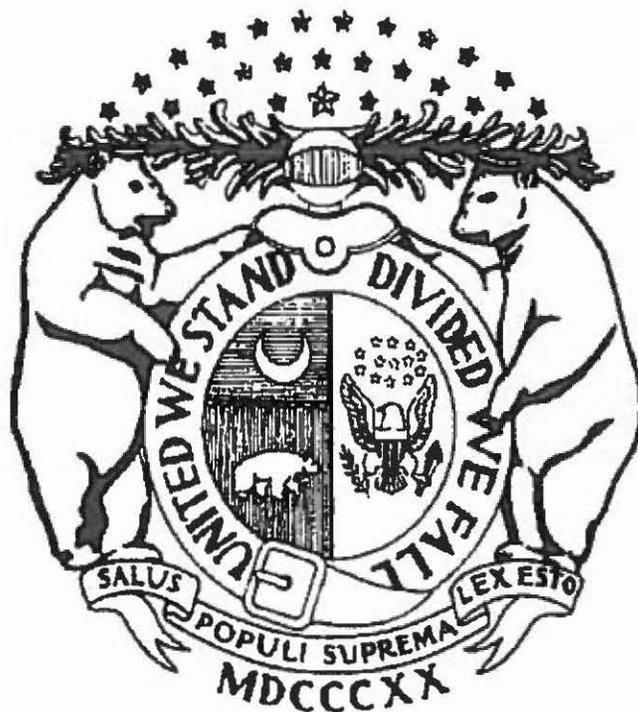
Based on such findings and conclusions, I hereby ORDER Freistatt Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or General Comments and Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) 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 20th day of OCTOBER, 2017.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions

**REPORT OF THE
FINANCIAL EXAMINATION OF
FREISTATT MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2015**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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May 10, 2017
Freistatt, 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

FREISTATT MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 411 North Main Street, Freistatt, Missouri, 65654, telephone number (417) 235-5366. This examination began on May 9, 2017, 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, 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 Missouri 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 on February 19, 1887, and incorporated on March 13, 1935, as the Farmers Mutual Insurance Company of Lawrence County. On March 5, 1985, the Company amended its Articles of Incorporation changing its name to Freistatt Mutual Insurance Company.

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 first Tuesday in March, 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. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter and each director is compensated \$300 for 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>
Gayle Cobb Clever, Missouri	Insurance Agent/Farmer	Term Expires 2018
Robert Patterson Pierce City, Missouri	Insurance Agent/Farmer	Term Expires 2017
Kathy Kellhofer Sarcoxie, Missouri	Insurance Agent/Farmer	Term Expires 2016
Stephen Humphill Liberty, Missouri	Attorney/Professor	Term Expires 2017
Kay Kaiser Monett, Missouri	Insurance Agent/Farmer	Term Expires 2016

Ed Mosher Mount Vernon, Missouri	Retired Insurance Agent	Term Expires 2017
Sandra Buntin Marionville, Missouri	Retired Teacher	Term Expires 2016
Kert Stump Shell Knob, Missouri	Insurance Agent/Farmer	Term Expires 2018
Steve Quade Shell Knob, Missouri	Retired Military	Term Expires 2018

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

Gayle Cobb	President
Robert Patterson	Vice-President
Kathy Kellhofer	Second Vice-President
Christopher Griesbaum	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 executed conflict of interest statements noted that all directors and officers completed the conflict of interest forms and five of the nine directors disclosed that they were also agents for the Company.

Corporate Records

A review was made of the Articles of Incorporation of the Company. It was noted that the Board of Directors passed a motion in a special meeting on March 5, 2013 to change the length of time officers serve from three years to five years. The Articles of Incorporation reflect an officer term of one year and have not been amended to reflect the change.

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 \$50,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC of \$75,000.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$2,500 deductible in aggregate for each claim. The Company's agents are required to purchase their own errors and omissions coverage, with no reimbursement from the Company. Other insurance coverages carried by the Company include property insurance on its home office and contents, workers compensation, and business liability insurance.

EMPLOYEE BENEFITS

The Company has three full-time employees and one part-time employee. Each year, full-time employees receive two weeks paid vacation and all federal holidays. The Company does not provide any additional paid benefits 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, lightning, wind and liability insurance in all counties in the State of Missouri. The Company's policies are sold by 21 licensed producers, who receive a twenty percent commission.

Policy Forms and Underwriting Practices

The Company utilizes policy forms from the American Association of Insurance Services. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and claims adjusting are performed by the Company Manager and Company Inspector/Adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2015	\$2,284,923	\$ 809,848	\$ 1,779,741	\$ 907,597	\$ 62,151	\$ (249,046)	\$ (186,895)
2014	2,350,487	688,517	1,753,816	695,328	53,638	250,542	304,690
2013	2,121,675	780,900	1,699,114	518,830	47,427	160,406	207,833
2012	1,860,668	692,169	1,454,313	599,936	42,754	30,801	77,296
2011	1,724,375	633,172	1,412,741	1,096,543	56,978	(359,944)	(291,334)

At year-end 2015 the Company had 2,139 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	\$1,779,741	\$1,753,816	\$1,699,114	\$1,454,313	\$1,412,741
Assumed	27,024	28,848	26,811	27,975	26,392
Ceded	478,193	472,335	401,178	386,642	328,556
Net	<u>\$1,328,572</u>	<u>\$1,310,329</u>	<u>\$1,324,747</u>	<u>\$1,095,646</u>	<u>\$1,110,577</u>

Assumed

The Company participates in a reinsurance pool with MAMIC. The reinsurance agreement pertains to errors and omissions policies and director and officer liability policies written by MAMIC. MAMIC cedes 84% of the first \$2,000,000 of each claim and in aggregate on all insurance producers' errors and omissions insurance and 84% of the first \$3,000,000 on each claim in aggregate on all director and officer liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 5% share in the interests and liabilities of the pool.

Ceded

At the end of 2015, the Company had all of its reinsurance through Wisconsin Reinsurance Company (the reinsurer) under a single contract with multiple sections covering property and liability risks.

Under the two-layer property per risk section of the agreement, the Company retains \$100,000 (first retention) per risk and the reinsurer is responsible for the excess, limited to \$500,000 (both limits added together) per risk. Under the aggregate excess of loss agreement, the reinsurer is liable for 100% of losses which exceed 60% (aggregate limit) of the Company's gross net earned premium income during the year.

Under the casualty excess of loss section of the agreement, the Company retains \$10,000 per occurrence and the reinsurer is responsible for the excess loss.

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 a cash basis. Policyholder documentation is maintained by both paper and electronic files and stored in a bank vault.

The CPA firm of The CPA Group of Monett, Missouri performs the annual audit, prepares tax returns and compiles the Annual Statement.

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.

ANALYSIS OF ASSETS
December 31, 2015

Bonds	\$ 1,359,604
Stocks	281,287
Real Estate	9,959
Cash on Deposit	255,349
Other Investments	276,855
Reinsurance Recoverable on Paid Losses	31,845
Computer Equipment	792
Federal Income Tax Recoverable	10,200
Adjusting Recoverable on Paid Losses	30,662
Ceded Reinsurance Premium Receivable	<u>28,370</u>
Total Assets	<u>\$ 2,284,923</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Losses Unpaid	\$ 175,232
Unearned Premiums	630,427
Payroll Tax	<u>4,189</u>
Total Liabilities	<u>\$ 809,848</u>
Guaranty Fund	559,316
Other Surplus	<u>915,759</u>
Total Surplus	<u>\$ 1,475,075</u>
Total Liabilities and Surplus	<u>\$ 2,284,923</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Assessments Earned	\$	1,333,560
Other Insurance Income		67,300
Net Losses & Loss Adjustment Expenses Incurred		(993,782)
Other Underwriting Expenses Incurred		(656,124)
Net Underwriting Income (Loss)	\$	(249,046)
Net Investment Income		62,151
Other Income		0
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Gross Profit (Loss)	\$	(186,895)
Federal Income Tax		0
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Net Income (Loss)	\$	(186,895)
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2014	\$	1,661,970
Net Income (Loss)		(186,895)
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Policyholders' Surplus, December 31, 2015	\$	1,475,075
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 3)

The Company should amend its Articles of Incorporation to reflect the change in officer terms approved in the March 5, 2013 special meeting of the Board of Directors.

Fidelity Bond (Page 4)

The Company should increase its fidelity bond coverage to \$75,000 in order to meet the minimum suggested guidelines promulgated by the NAIC.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Freistatt Mutual Insurance during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Marc Peterson, CFE, examiner 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.

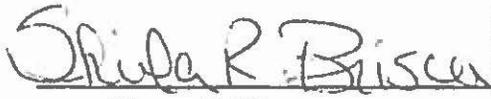


Mark Nance, CFE, CPA
Senior Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 11th day of July, 2017.

My commission expires:

5-14-2020

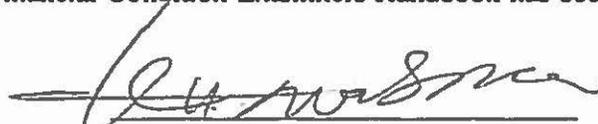


Notary Public



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