

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

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

RE: Examination Report of Farm Bureau New Horizons Insurance Company of Missouri for the period ended December 31, 2014

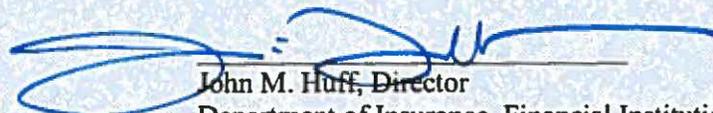
ORDER

After full consideration and review of the report of the financial examination of Farm Bureau New Horizons Insurance Company of Missouri 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 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, reinsurance, financial statements, comments on financial statement items, examination changes, and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Farm Bureau New Horizons Insurance Company of Missouri as of December 31, 2014 be and is hereby ADOPTED as filed and for Farm Bureau New Horizons Insurance Company of 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 by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 8th day of July, 2016.

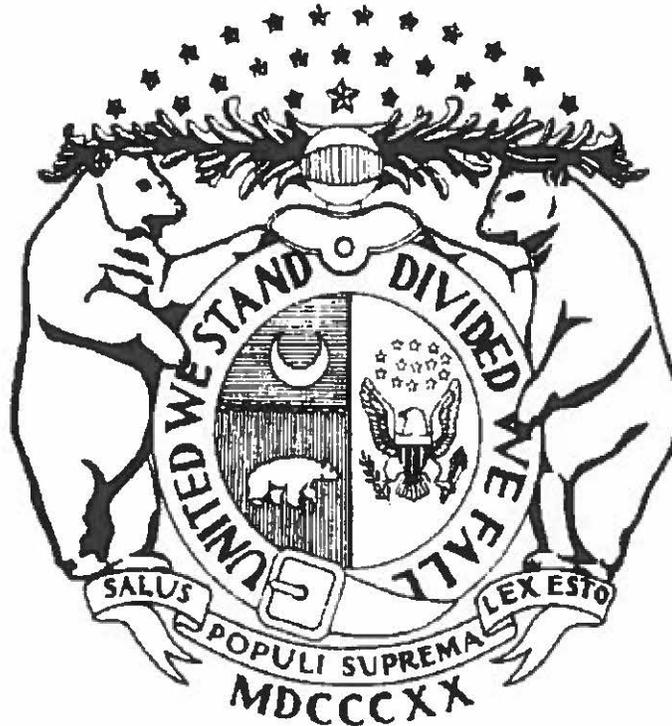



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
FARM BUREAU NEW HORIZONS
INSURANCE COMPANY OF MISSOURI**

**AS OF
DECEMBER 31, 2014**

FILED
JUL 18 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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Jefferson City, Missouri
April 29, 2016

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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

Farm Bureau New Horizons Insurance Company of Missouri

hereinafter referred to as such, as FBNH, or as the Company. Its administrative office is located at 701 South Country Club Drive, Jefferson City, Missouri, 65109, telephone number (573) 893-1400. This examination began on October 26, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a full scope financial examination of FBNH. The last examination was completed as of December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014. This examination also included the material transactions or events occurring subsequent to December 31, 2014.

This examination was performed concurrently with the Missouri DIFP examinations of FBNH affiliates Farm Bureau Life Insurance Company of Missouri (FBL) and Farm Bureau Town & Country Insurance Company of Missouri (FBT&C).

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An

examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examiners relied upon information supplied by the Company's independent auditor, Williams Keepers, LLP, of Columbia, Missouri, for its audit covering the period from January 1, 2014, through December 31, 2014. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, bank confirmations, paid claims data, premiums receivable, unearned premiums, attorney representation letters, fraud assessment, and subsequent events review.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2014, through the date of the report.

COMPANY HISTORY

General

FBNH was incorporated on August 17, 2005, under the laws of the State of Missouri and commenced business on November 8, 2005. The Company operates as a stock property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Dividends and Capital Contributions

The Bylaws allow for dividends to be paid on common stock shares, pursuant to a declaration of the Board of Directors. However, no dividends were declared or paid by FBNH during the examination period.

In 2012, FBNH received \$7.0 million in paid in capital, consisting of payments of \$3.5 million from parent, FBT&C, and \$3.5 million from parent, FBL.

Mergers and Acquisitions

There were no mergers or acquisitions involving the Company or the holding company system of the ultimate parent, Missouri Farm Bureau Federation (MFB-Federation), during the examination period.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments during the examination period. The minutes of the Board of Directors' meetings, written consents in lieu of meetings, and the shareholder written consents were reviewed for proper approval of corporate transactions. In general, the minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors, which is appointed by the shareholders. The Company's Bylaws specify that the Board of Directors shall consist of twelve (12) members. The directors of the ultimate parent, MFB-Federation, simultaneously serve as directors all of its subsidiaries, including FBNH. The Board of Directors appointed and serving, as of December 31, 2014, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Charles Bassett	Dixon, MO	Farmer, Self-Employed
Lane Baxter	Rogersville, MO	Farmer, Self-Employed
Chris Chinn	Clarence, MO	Farmer, Self-Employed
Mary Fischer	Rockville, MO	Executive Secretary, First Christian Church
Brent Hampy	Smithton, MO	Farmer, Self-Employed
Vernon Hart	St. Joseph, MO	Farmer, Self-Employed
Todd Hays	Monroe City, MO	Farmer, Vice-President of MFB-Federation
Blake Hurst	Tarkio, MO	Farmer, President of MFB-Federation
Denny Mertz	Chesterfield, MO	Farmer, Self-Employed
Allen Rowland	Dexter, MO	Farmer, Self-Employed
Teribeth Spargo	Naylor, MO	Farmer, Self-Employed
Harry Thompson	Lohman, MO	Farmer, Self-Employed

The Articles of Incorporation and Bylaws do not require any committees, but the Articles of Incorporation do allow for committees to be appointed by the Board of Directors. The FBNH committees formally appointed and serving as of December 31, 2014, were as follows:

<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Per Diem & Expense Committee</u>
Denny Mertz, Chairman	Todd Hays, Chairman	Todd Hays, Chairman
Vernon Hart	Harry Thompson	Brent Hampy
Chris Chinn	Charles Bassett	Lane Baxter
Allen Rowland	Teribeth Spargo	Mary Fischer

The Company also has six informal committees which include the Investment Committee, Personnel Committee, Reinsurance Committee, Software Development Initiative (SDI) Steering Committee, 401(k) Committee and Long-Term Planning Committee. The committees consist of management and staff members from all areas of the Company.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2014, were as follows:

<u>Officer</u>	<u>Position</u>
Blake Hurst	President
Todd Hays	Vice-President
Daniel Cassidy	Secretary and Chief Administrative Officer
Randall Campbell	Treasurer and Chief Financial Officer

Holding Company, Subsidiaries and Affiliates

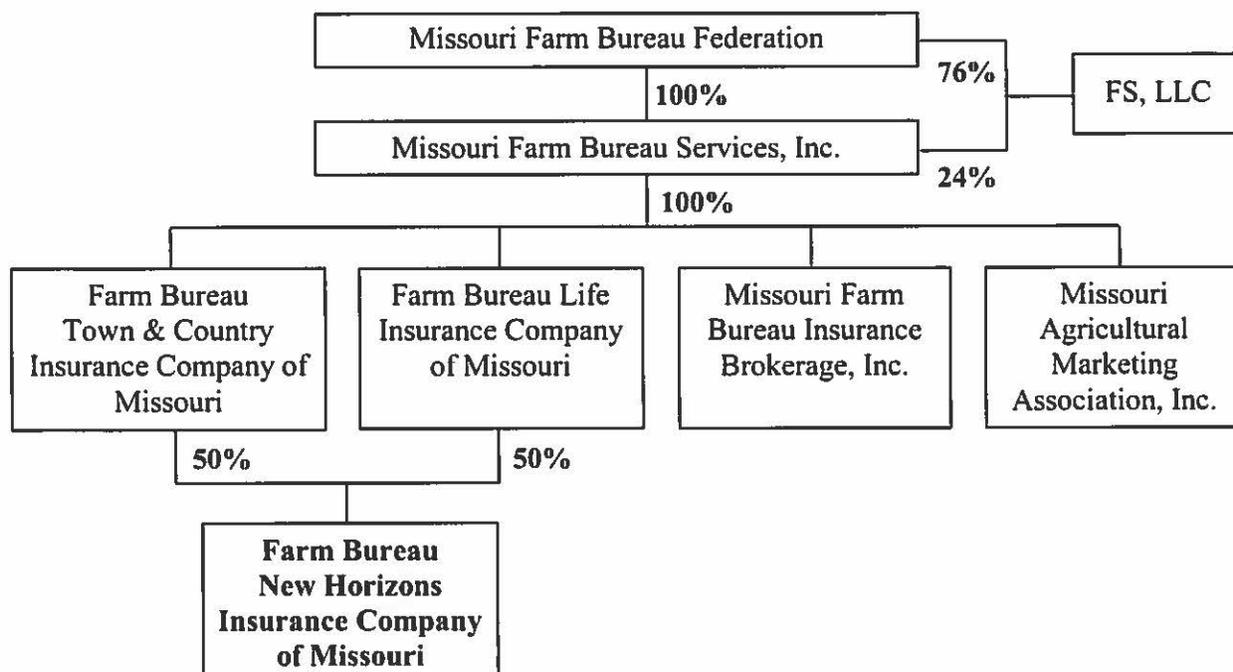
The Company is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the holding company, Missouri Farm Bureau Services, Inc. (MFB-Services), on behalf of FBNH and its other insurance subsidiaries for each year of the examination period. FBNH is ultimately owned 100% by MFB-Federation.

Below is a description of the business operations of all affiliated entities.

- **MFB-Federation** – The ultimate parent company is a not-for-profit organization that promotes the interests of its member farmers and the agriculture industry. Profits from the insurance operations of FBT&C, FBL and FBNH are the main source of income for the consolidated operations of MFB-Federation.
- **MFB-Services** – A holding company that directly or indirectly owns all insurance entities. Employees of MFB-Services conduct most of the daily operations of the insurance entities.
- **FBT&C** – A property and casualty insurer that writes primarily homeowners, farmowners, automobile physical damage and automobile liability lines of business.
- **FBL** – A life insurance company that offers mostly whole life, term life and individual annuity products.
- **Missouri Farm Bureau Insurance Brokerage, Inc.** – A brokerage designed to place insurance coverages either not offered by or not available through FBT&C, FBL or FBNH. Coverages offered range from workers' compensation, non-standard automobile, professional liability, individual and group health products, disability, Medicare supplements, long-term care and many specialty coverages.
- **Missouri Agricultural Marketing Association, Inc.** – A dormant entity that had no business operations during the examination period.
- **FS, LLC** – An entity formed in 2006 for the sole purpose of holding ownership to the main office building in Jefferson City, Missouri. Ownership of the building was transferred from MFB-Federation to FS, LLC at the time of its formation to provide tax advantages that could not be utilized by MFB-Federation.

Organizational Chart

Below is an organizational chart reflecting FBNH’s ownership and affiliates, as of December 31, 2014. [Note: All entities incorporated / domiciled in Missouri.]



Intercompany Agreements

The Company is a party to significant intercompany agreements in effect as of December 31, 2014, as outlined below:

1. **Type:** Allocation of Consolidated Tax Liability Agreement
- Parties:** MFB-Federation, MFB-Services and all subsidiaries
- Effective:** September 1, 2005
- Terms:** MFB-Services and its subsidiaries (including FBNH) agree to file a consolidated federal income tax return. The Company will pay estimated federal income tax payments to MFB-Services on or before April 15, June 15, September 15, and December 15 of each current tax year and on or before March 15 of the following year for the extension filing. Settlement of the remaining tax liability or receivable due with the final tax return will be made after the final tax return is filed. The allocation of the consolidated federal income tax payments to each entity will be based upon the proportion of each entity’s individual taxable income to the consolidated taxable income. A separate adjustment shall be made each year between MFB-Services and each subsidiary for the difference, if any, between the allocated tax payments and the tax liability that would have resulted from each entity filing a separate federal tax return.

2. Type: Claims Service Agreement

Parties: FBT&C and FBNH

Effective: January 1, 2006

Terms: FBT&C will provide claims adjusting and claims payment functions for FBNH. FBNH will pay a fee for each claim processed by FBT&C personnel. The per claim fees vary depending on the amount of the claim payment, as follows: \$175 fee for claims \$1,000 and under; \$240 fee for claims between \$1,000 and \$2,500; \$335 fee for claims between \$2,500 and \$5,000; \$560 fee for claims between \$5,000 and \$10,000; \$670 fees for claims between \$10,000 and \$15,000; \$810 for claims above \$15,000. Fees are to be paid by FBNH to FBT&C on a monthly basis and are due within 60 days after the actual total fees for the month are determined.

3. Type: Space Rent Agreement

Parties: FS, LLC, FBT&C, FBNH and FBL

Effective: July 1, 2013

Terms: FBT&C, FBNH and FBL utilize office space and facilities in a building located in Jefferson City, Missouri that is owned by FS, LLC. This building serves as the home office for FBT&C, FBNH and FBL to conduct all major business functions. FBT&C, FBNH and FBL will pay rent to FS, LLC for the following expenses associated with operating the building: depreciation, maintenance and repairs, utilities, taxes, building management, insurance, interest, and other costs. The rent shall be calculated on an annual basis and charged to FBT&C, FBNH and FBL based upon the assigned square footage of each entity.

4. Type: Service Agreement

Parties: MFB-Services, FBT&C, FBL and FBNH

Effective: January 1, 2007

Terms: MFB-Services will provide the following services for the subsidiary insurers: executive management, human resources, accounting, legal, audit, investment, information technology, public affairs, mailroom, imaging, printing, supplies, furniture and equipment, fleet rental, building maintenance, janitorial, cafeteria, copying, customer service, and actuarial. The insurers will pay fees to MFB-Services on a monthly basis for the services provided. The fees for most of the provided services are calculated based upon various allocation methods that are specified in the agreement. The fees for some services may be directly attributable to an entity and will be billed based upon actual usage. Fees payable to MFB-Services are to be paid within 60 days after the fees have been calculated.

- 5. Type:** Cost Sharing Agreement
- Parties:** MFB-Federation, MFB-Services, FBT&C, FBL, FBNH and MFB-Brokerage
- Effective:** January 1, 2007
- Terms:** The parties utilize common management and employees for various operational activities. The costs will be shared among the parties for the following operational functions: underwriting, sales (commissions), sales contests, promotional events, agents' payroll, Partners for Growth program (county office expenses), and other miscellaneous areas. The allocation of costs shall be computed on a monthly basis after actual expenses are determined and are due within 60 days of the computations. The allocation basis for underwriting, commissions, and service center costs is not specified but is to be based upon predetermined percentages that are reviewed annually. Allocation of agents' payroll is to be based upon the production attributable to each entity in the preceding month. The allocation basis for the costs of other activities was not explained in the agreement.

TERRITORY AND PLAN OF OPERATION

FBNH is licensed only in the State of Missouri under Chapter 379 RSMo (Insurance Other Than Life). The major lines of business, based upon 2014 direct and net written premiums, are listed in the table below.

<u>Line of Business</u>	<u>Direct Premiums</u>	<u>%</u>	<u>Net Premiums</u>	<u>%</u>
Homeowners Multiple Peril	\$3,386,758	67.70%	\$15,988,604	58.20%
Fire	706,361	14.10%	1,815,070	6.60%
Farmowners Multiple Peril	907,810	18.20%	3,567,724	13.00%
Commercial Multiple Peril	0	0.00%	5,625,878	20.50%
All Other	0	0.00%	487,111	1.80%
Total	<u>\$5,000,929</u>	<u>100.00%</u>	<u>\$27,484,387</u>	<u>100.00%</u>

A policyholder must be a member of the ultimate parent, MFB-Federation, in order to be insured by FBNH. The Company only writes direct business in Missouri, and a majority of policyholders are located in rural areas. Over 80% of the Company's total gross premiums consist of reinsurance assumed from a Missouri-domiciled mutual insurance company, which also only writes insurance in Missouri.

The Company and its 50% parent, FBT&C, have a combined business plan. FBT&C writes the preferred property risks and all auto business. FBNH specializes in providing property insurance for members that do not qualify for insurance under FBT&C's underwriting standards. As a result of this strategy, the Company mostly insures high risk properties and policyholders with poor claims history.

Business for FBNH is produced by a dedicated agency force employed by an affiliate, Missouri Farm Bureau Insurance Brokerage, Inc. (MFB-Brokerage). There were 235 agents of MFB-Brokerage, as of December 31, 2014. The agents produce business exclusively for FBNH and its two affiliates, FBT&C and FBL. Any risks for lines of business not written by FBNH, FBT&C or FBL are placed by MFB-Brokerage with third-party insurers.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Direct Business	\$ 2,522,973	\$ 3,045,952	\$ 3,591,392	\$ 4,265,689	\$ 5,000,929
Reinsurance Assumed					
Affiliates	0	0	0	139,000	110,000
Non-affiliates	1,763	2,077	38,726,024	23,985,123	24,836,697
Reinsurance Ceded:					
Affiliates	0	0	0	(986,000)	(936,302)
Non-affiliates	(767,269)	(789,179)	(8,038,986)	(1,719,425)	(1,526,936)
Net Premiums Written	<u>\$1,757,467</u>	<u>\$2,258,850</u>	<u>\$34,278,430</u>	<u>\$25,684,387</u>	<u>\$27,484,388</u>

Assumed

In 2012, the Company started assuming 100% of the business written by Barton Mutual Insurance Company (Barton). Barton writes business exclusively in Missouri, and the majority of the business is classified as homeowners, farmowners and small commercial. The 2014 agreement consists of a 100% quota share arrangement, which allows for a 20% provisional ceding commission, subject to upward adjustment if certain loss ratios are attained.

The Company assumes property business from FBT&C under a catastrophe excess of loss contract. FBNH assumes losses in excess of a \$9 million retention, limited to \$1 million per occurrence.

Ceded

The Company cedes property business to FBT&C under per risk and catastrophe excess of loss contracts. Under the per risk agreement, FBNH cedes losses in excess of a retention of \$300,000, limited to \$200,000 per risk and \$1 million per occurrence. Under the catastrophe agreement, FBNH cedes losses in excess of a \$1 million retention, limited to \$9 million per occurrence.

All of the Company's external reinsurance coverage is provided by American Agricultural Insurance Company (American Ag) through multiple reinsurance agreements, on which both FBNH and FBT&C are named as reinsureds.

Property risks are reinsured on an individual risk basis through an excess of loss agreement. The excess of loss agreement provides coverage for 100% of property losses in excess of a \$500,000 retention per risk with a reinsurance liability limit of \$19.5 million per risk.

Property catastrophe coverage is provided through agreements which cover non-terrorism and terrorism occurrences. The occurrence property and auto catastrophe agreement covers non-terrorism events, providing layered coverage totaling \$65 million per occurrence in excess of a retention of \$10 million and a 10% participation in the first \$10 million layer of coverage. The occurrence property catastrophe (terrorism) agreement covers terrorism events, which are excluded in the aforementioned agreement. The Company's retention is \$5,963,300 per occurrence, and the reinsurer's limit is \$11,926,600 per occurrence and in aggregate for the year. The agreement also contains a secondary limitation that limits the reinsurer's losses under all terrorism catastrophe agreements with all Farm Bureau companies to \$35 million per occurrence and in aggregate for the year. In the event this secondary limit is exceeded, the Farm Bureau companies would recover losses on a pro rata basis, based on each company's losses submitted under the contract in proportion to the total losses of all companies submitted under the contracts. An additional catastrophe agreement is named "over other protections" or "OOPS". Under the agreement, the Company has a retention of \$76 million per occurrence, and the reinsurer's limits are \$34 million per occurrence and \$68 million in aggregate. The agreement also contains a secondary limitation that limits the reinsurer's losses under all OOPS agreements with all Farm Bureau companies to \$150 million per occurrence and \$300 million in aggregate for the year. In the event this secondary limit is exceeded, the Farm Bureau companies would recover losses on a pro rata basis, based on each company's losses submitted under the contract in proportion to the total losses of all companies submitted under the contracts.

Most liability risks are reinsured through an excess of loss agreement. The Company cedes 100% of risks in excess of a \$600,000 retention per occurrence with a maximum reinsurer liability limit of \$30,000,000 per occurrence. A separate reinsurance agreement provides coverage for umbrella liability risks. The Company cedes 90% of the first \$1,000,000 of umbrella risks and 100% of umbrella risks in excess of \$1,000,000.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

ASSETS
as of December 31, 2014

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$34,631,709	\$ 0	\$34,631,709
Cash, Cash Equivalents and Short-Term Investments	2,918,357	0	2,918,357
Investment Income Due and Accrued	263,287	0	263,287
Uncollected Premiums and Agents' Balances	1,892,832	9,619	1,883,213
Deferred Premiums	1,488,641	0	1,488,641
Other Amounts Receivable under Reinsurance Contracts	1,639,518	0	1,639,518
Net Deferred Tax Asset	891,667	9,413	882,254
Receivables from Parent, Subsidiaries and Affiliates	21,989	0	21,989
Aggregate Write-In Assets	5,230	0	5,230
TOTAL ASSETS	<u>\$43,753,230</u>	<u>\$ 19,032</u>	<u>\$43,734,198</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2014

Losses	\$5,925,564
Reinsurance Payable on Paid Losses	1,092,987
Loss Adjustment Expenses	874,872
Commissions Payable	4,618,338
Other Expenses	7,692
Taxes, Licenses and Fees	15,002
Current Federal Income Taxes	839,954
Unearned Premium	10,565,260
Advance Premium	649,491
Ceded Reinsurance Premiums Payable	117,296
Drafts Outstanding	307,963
Payable to Parent, Subsidiaries and Affiliates	18,447
Aggregate Write-Ins for Liabilities	<u>7,608</u>
TOTAL LIABILITIES	\$25,040,474
Common Capital Stock	1,200,000
Gross Paid-In and Contributed Surplus	11,800,000
Unassigned Funds (Surplus)	<u>5,693,724</u>
Capital and Surplus	<u>\$18,693,724</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$43,734,198</u>

STATEMENT OF INCOME
For the Year Ended December 31, 2014

Premium Earned	\$27,430,640
DEDUCTIONS:	
Losses Incurred	12,315,703
Loss Adjustment Expenses Incurred	821,983
Other Underwriting Expenses Incurred	10,640,331
Total Underwriting Deductions	\$23,778,017
Net Underwriting Gain	\$ 3,652,623
Net Investment Income Earned	775,388
Net Realized Capital Losses	(2,839)
Net Investment Gain	\$ 772,549
Other Income	96,318
Federal Income Taxes Incurred	1,596,992
Net Income	\$ 2,924,498
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2013	15,728,922
Net Income	2,924,498
Change in Net Deferred Income Tax	43,414
Change in Non-Admitted Assets	(3,110)
Net Change in Capital & Surplus for the Year	2,964,802
Surplus as Regards Policyholders, December 31, 2014	\$18,693,724

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

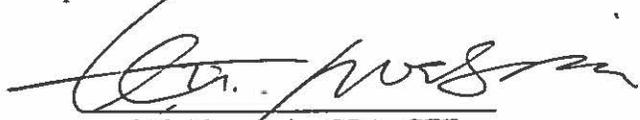
None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

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 except where practices, procedures and applicable regulations of the MO DIFP and statutes of the State of Missouri prevailed.



Levi N. Nwasoria, CPA, CFE
Audit Manager
Missouri DIFP