

**REPORT OF THE
FINANCIAL EXAMINATION OF
CALDWELL COUNTY MUTUAL
INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2006**

FILED

DEC 19 2007

**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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July 17, 2007
Kingston, Missouri

Honorable Douglas M. Ommen, 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

CALDWELL COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 96 Franklin Street (P.O. Box 55), Kingston, Missouri 64650, telephone number (816) 586-3531. This examination began on July 16, 2007, and was concluded on July 17, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior review of CPA report in lieu of examination of the Company was made as of December 31, 2001, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2002, through December 31, 2006, 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, 2001, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Conflict of Interest

Comment: The Company was directed to ensure all directors and officers sign conflict of interest statements on an annual basis.

Company Response: The Company requires directors and officers to complete conflict of interest forms on an annual basis.

Current Findings: The directors and officers completed conflict of interest statements on an annual basis during the exam period.

HISTORY

General

The Company was originally established and incorporated on February 5, 1895. The Company has a

Certificate of Authority dated December 20, 2002, 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 third Wednesday in February at the home office of the Company or at such place designated by the Board of Directors. Special meetings 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 management of the Company is 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. Directors who are also agents of the Company receive \$50 per each meeting attended, while directors who are not also agents of the Company receive \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2006, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Kevin L. Stonum 9335 Southwest Highway 116 Lathrop, Missouri	Farmer/Agent	2005-2008
Carolyn L. Pratt 6330 Northeast Turkey Road Breckenridge, Missouri	Agent/Homemaker	2004-2007
James E. Howell 4663 Southwest Mirabile Drive Polo, Missouri	Farmer/Agent	2005-2008
Richard J. Lee 408 North Ewing Street Hamilton, Missouri	Agent/Public Administrator	2005-2008
Christina A. Biggerstaff 8440 Northwest Caldwell Road Kidder, Missouri	Postmistress/Agent	2004-2007
Kipper J. Kleeman 15789 County Road 121 Braymer, Missouri	Farmer/Agent	2006-2009
Walter D. Snyder 3190 Northwest Kendall Road Hamilton, Missouri	Farmer	2006-2009
Michael C. Strider 1201 Clinton Street Lathrop, Missouri	Bank Executive	2004-2007

W. W. Beckett, Jr.
1203 Park
Cameron, Missouri

Businessman/Propane Company Employee 2006-2009

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, 2006, were as follows:

Richard J. Lee	President
Kevin L. Stonum	Vice-President
Nancy Millikan	Secretary
James E. Howell	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. It was disclosed as potential conflicts of interest in the statements that six of the nine directors are also agents of the Company.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 14, 2004, the membership officially approved an amendment to the Articles of Incorporation. The amendment changed the language to correspond to the Company's conversion to an Extended Missouri Mutual Insurance Company, which had previously occurred in 2002. The 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. In addition, the Company's written policies and procedures were reviewed. The minutes and records of the Company appear to properly reflect the 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, which is between \$75,000 and \$100,000 in coverage. It is recommended the Company increase its fidelity bond coverage to a minimum of \$75,000.

The Company carries directors and officers liability coverage with an aggregate limit of \$1,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company requires its agents to purchase their own errors and omission coverage.

The Company also carries property insurance on its home office and contents, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees. The employees are allowed paid vacation and sick leave. In addition, the Company contributes a percentage of each employee's annual salary into a Simplified Employee Pension account on behalf of each employee. The Company appears to have made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Company operating under

Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverage through an organizational agreement with its reinsurer. The Company's policies are sold by 7 licensed agencies, who receive a 15.5% commission.

Policy Forms and Underwriting Practices

The Company uses Grinnell Mutual Reinsurance Company policy forms. The policies are written on a continuous period, with properties inspected at every three years. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting of minor claims are performed by the agents. Independent adjusters are utilized for other claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2006	\$2,852,282	\$ 435,722	\$1,109,294	\$305,252	\$101,467	\$145,085	\$226,320
2005	2,594,304	403,986	1,044,144	379,540	60,347	121,179	173,857
2004	2,405,366	389,225	970,925	253,220	35,843	181,129	213,192
2003	2,169,175	364,971	888,649	302,750	38,555	121,590	154,695
2002	1,959,691	312,014	764,890	220,627	49,668	153,664	195,143

At year-end 2006, 1,582 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct	\$764,890	\$888,650	\$970,925	\$1,044,144	\$1,109,294
Assumed	0	0	0	0	0
Ceded	<u>(181,349)</u>	<u>(206,361)</u>	<u>(210,373)</u>	<u>(232,276)</u>	<u>(267,632)</u>
Net	<u>\$583,541</u>	<u>\$682,289</u>	<u>\$760,552</u>	<u>\$811,868</u>	<u>\$841,662</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 fire and wind 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 2006 was \$.5470 for fire and \$.1206 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind 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 2006 was \$405,345, and the annual premium paid was \$.5157 per \$1,000 of adjusted gross fire risks in force.

The Company also has an agency organizational agreement with the reinsurer. Under the terms of the agreement, the Company markets liability policies for the reinsurer, and receives a 20% 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 by the Company on an accrual basis. Steven Grant, CPA, performs an annual audit of the financial statements and prepares the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2006, 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, 2006

Real Estate	\$ 94,430
Cash on Deposit	2,720,061
Assessments Receivable	13,428
Computer Equipment	8,116
Interest Due & Accrued	16,247

Total Assets	<u>\$ 2,852,282</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Net Losses Unpaid	\$ 10,089
Ceded Reinsurance Premium Payable	20,849
Unearned Assessments	388,785
Federal Income Tax Payable	11,373
Liability Write-Ins	4,625

Total Liabilities	\$ 435,722

Guaranty Fund	\$ 165,964
Other Surplus	2,250,596

Total Surplus	2,416,560

Total Liabilities and Surplus	<u>\$ 2,852,282</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	\$ 830,512
Other Insurance Income	430
Net Losses & Loss Adjustment Expenses Incurred	(332,516)
Other Underwriting Expenses Incurred	(353,340)

Net Underwriting Income (Loss)	\$ 145,085
Investment Income	101,467

Gross Profit (Loss)	\$ 246,552
Federal Income Tax	(20,232)

Net Income (Loss)	\$ 226,320
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 2,190,317
Net Income (Loss)	226,320
Change in Non-Admitted Assets	(77)

Policyholders' Surplus, December 31, 2006	\$ 2,416,560
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance (Page 3)

It is recommended the Company increase its fidelity bond coverage to a minimum of \$75,000.

SUBSEQUENT EVENTS

None.

