

REPORT OF  
FINANCIAL EXAMINATION

**Cedar Fork Mutual  
Aid Society, Inc.**

As of:

December 31, 2005



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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August 4, 2006  
Gerald, MO

Honorable Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

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

**Cedar Fork Mutual Aid Society, Inc.**

hereinafter referred to as such or as the "Company" or "Cedar Fork". The Company's home office and principal place of business is located at 4608 Vossbrink Road, Gerald, Missouri 63037; telephone number (573) 764-3810. This examination was conducted at the home office near Gerald, Missouri. The examination began July 31, 2006, and concluded August 4, 2006.

**SCOPE OF EXAMINATION**

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2001 for the year ending December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by an examiner from the Missouri Department of Insurance.

## Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri.

## Comments - Previous Examination Report

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

**Comment:** "It was recommended that the board of directors set forth the Company's policies in written form. These policies should be maintained in an up-to-date manual and made available to Company management and personnel."

**Company Response:** The Company would consider developing a policy manual.

**Current Examination Findings:** The Company has lists of duties for the various officers. Company has completed a short manual.

## **HISTORY**

### General

The Company was originally organized in 1871. On December 21, 1984, the Company amended its Articles of Incorporation and was granted a Charter of Incorporation. In 1985, the Company was issued a Certificate of Authority by the Missouri Division of Insurance and was organized under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies).

## Management and Control

A board of five directors provides oversight of the Company. Each director serves a three-year term with one or two directors elected each year. Directors are elected at annual membership meetings held on the second Tuesday in February. Special meetings of the membership may be called by the board of directors at any time or upon petition of one-fourth of the members. Proxy voting is permitted.

The board of directors consisted of the following members as of December 31, 2005:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
Whitson Moss, President 343 Fair Street Sullivan, Missouri 63080	Agent	2003 to 2006
Victor Froelker, Vice-president 3503 Shotwell Road Gerald, Missouri 63037	Company Vice-President Electrician	2004 to 2007
Trisha Gerlemann 4068 Vossbrink Road Gerald, Missouri 63037	Housewife and Secretary	2004 to 2007
Troy Blaue 7640 Beemont School Road Gerald, Missouri 63037	Farmer – Adjuster/Inspector	2005 to 2008
Donald Moss 9185 Parshall Road Bourbon, Missouri 65441	Farmer – President of Company	2005 to 2008

In addition, Joan Blaue is the Company's Treasurer.

### Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

### Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual membership meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. A review of board meeting minutes indicated that the board is adequately informed regarding the Company's operations. The board formally acknowledged receipt of the previous Missouri Department of Insurance report of financial examination during its meeting on August 14, 2001. Attendance at the board and annual membership meetings appears to be satisfactory.

### **FIDELITY BOND AND OTHER INSURANCE**

Company management has acted to minimize the risk exposure of the Company. The Company has a fidelity bond totaling \$25,000 from Western Surety Company. This meets the minimum amount recommended by the National Association of Insurance Commissioners for a company of this size and complexity. The Company has purchased errors and omissions coverage for its agents. This coverage, with a limit of \$300,000, was obtained from MAMIC Mutual Insurance Company. Directors and officers liability coverage, with an aggregate limit of \$500,000, was also provided by MAMIC Mutual Insurance Company.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has two part-time employees, Joan Blaue, treasurer and Trisha Gerlemann, the secretary. They receive a monthly salary and no other benefits. The Company has no pension or retirement plan.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire coverage in Franklin, Gasconade, and adjoining counties. During the review of the Certificate of Authority, it was noted that the Company is writing wind coverage without authority.

Liability coverage is available to the policyholders through a "Special Policies" agreement with Farmers Union Co-operative Insurance Company of Nebraska. Farmers Union Co-operative Insurance Company of Nebraska underwrites liability coverage and pays the Company a commission of 20%.

It is recommended that the Company add wind and liability to its Certificate of Authority.

## Policy Forms and Underwriting Practices

The Company uses policy forms supplied by the MAMIC Association. American Association of Insurance Services completed the forms for the MAMIC Association. The Company issues continuously renewable policies. Inspections are performed by Troy Blaue and are completed on all new applications.

Claims are initially made to the agents. A signed proof of loss is obtained and the claim is forwarded to the president, Donald Moss, for approval. The claim is then sent to the secretary who verifies coverage. Finally, the claim is sent to the treasurer for payment. Other adjusters may be used if needed and large claims are adjusted by the reinsurer.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

Year	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Admitted Assets	\$770,843	\$791,315	\$737,336	\$769,235	\$713,389
Liabilities	\$0	\$0	\$0	\$0	\$0
Gross Assessments	\$238,940	\$243,448	\$207,824	\$178,568	\$158,130
Losses Incurred	\$61,623	\$26,904	\$79,331	\$105,448	\$111,580
Investment Income	\$16,888	\$12,587	\$12,711	\$21,931	\$37,164
Underwriting Income	\$(37,360)	\$28,682	(\$46,622)	(\$21,528)	(\$7,692)
Net Income	\$(20,472)	\$53,979	(\$33,911)	\$55,846	\$29,774
Policies In Force	858	866	871	875	877

These figures are based on data from annual statements provided by the Company. Losses incurred do not reflect any reinsurance recoveries. Investment income has been stable and generally increasing.



## REINSURANCE

### Assumed

The Company does not assume any reinsurance.

### Ceded

Cedar Fork has a first per risk excess of loss reinsurance agreement with Farmers Mutual Hail Insurance Company of Iowa for all property perils. The Company retains \$15,000 on any one risk. The reinsurer is liable for 100% of losses in excess of \$60,000 with a liability limit of \$150,000 per occurrence. The annual reinsurance premium is subject to a 15% minimum and 30% maximum of the Gross Net Written Premium Income (GNWPI).

Cedar Fork has a second per risk excess of loss reinsurance agreement with Farmers Mutual Hail Insurance Company of Iowa for all property perils. The reinsurer is liable for 100% of losses in excess of \$75,000 with a liability limit of \$150,000 for any one risk. The annual reinsurance premium is subject to a 5.75% of net written property premium income.

Cedar Fork has a first aggregate excess of loss reinsurance agreement with Farmers Mutual Hail Insurance Company of Iowa for fire and allied lines. The reinsurer is liable for 100% of 300% of Gross Net Written Premium Income (GNWPI) in excess of 85% of the Gross Net Written Premium Income (GNWPI) in any one annual period. The annual premium paid to the reinsurer is 27% of the Gross Net Written Premium Income (GNWPI) with a minimum deposit of \$36,880.

Cedar Fork has a second aggregate excess of loss reinsurance agreement with Farmers Mutual Hail Insurance Company of Iowa for fire and allied lines. The reinsurer is liable for 100% of 1155% of Gross Net Written Premium Income (GNWPI) in excess of 385% of the Gross Net Written Premium Income (GNWPI) in any one annual period. The annual premium paid to the reinsurer is 5% of the Gross Net Written Premium Income (GNWPI) with a minimum deposit of \$6,800.

Cedar Fork has a Facultative Agreement with Farmers Mutual Hail Insurance Company of Iowa for all property perils. This agreement allows for the Company to ceded all risks over \$150,000. The Company receives a ceding commission of 20% for this business.

Cedar Fork has cooperative agreements with Farmers Union Co-operative Insurance Company of Nebraska (a subsidiary of Farmers Mutual Hail Insurance Company of Iowa) . The Company receives a 15% commission for issuing and servicing the policies. The agreement does not contain a hold harmless clause. It is recommended that the Company amend the agreement to obtain a hold harmless clause.

## **ACCOUNTS AND RECORDS**

The Company maintains policyholder and financial records manually. Records for assessments and claims are kept both in individual policyholders' files and in a ledger. Accounting and financial records are kept in ledgers as well. All income and expenses are recorded through the checking account which reconciles with the ledgers.

The Company's accounting system appears to be adequate to meet management and financial reporting requirements. The annual statement was prepared on a cash basis and generally meets statutory requirements per Section 380 RSMo. Although not required for assessable companies, no unearned premium reserve had been established. The Company had sufficient surplus to accommodate the reserve had one been established.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2005, 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 with respect to their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for individual annual statement items.

### ADMITTED ASSETS

Bonds	\$0
Stocks	0
Real Estate	0
Cash on Deposit	770,843
Reinsurance Recoverable on Paid Losses	0
Reinsurance Recoverable on Unpaid Losses	0
Computer Equipment	0
Federal Income Tax Recoverable	0
Interest Due and Accrued	<u>0</u>
<b>Total Assets</b>	<b><u>\$770,843</u></b>

### LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$0
Ceded Reinsurance Payable	0
Unearned Premium	0
Payroll Taxes Payable	<u>0</u>
<b>Total Liabilities</b>	<b><u>\$0</u></b>
Guaranty Fund	\$150,000
Other Surplus	<u>\$620,843</u>
<b>Total Policyholder Surplus</b>	<b><u>\$770,843</u></b>
<b>Total Liabilities and Policyholder Surplus</b>	<b><u>\$770,843</u></b>

### STATEMENT OF INCOME

Net Assessment/Premium Income	\$75,204
Reinsurance Commission	0
<i>Less:</i> Net Losses	62,391
<i>Less:</i> Underwriting Expenses	<u>50,173</u>
Underwriting Income	(\$37,360)
Net Investment Income	\$16,888
Other Income	<u>0</u>
Gross Profit or (Loss)	(\$20,472)
<i>Less:</i> Federal Income Tax	<u>0</u>
Net Profit or (Loss)	<u>(\$20,472)</u>

### CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2004	\$791,315
Net Income (reported by the Company)	(\$20,472)
Examination Changes (Net)	<u>0</u>
Policyholders' Surplus, December 31, 2005	<u>\$770,843</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

### **EXAMINATION CHANGES**

There were no examination changes.

### **GENERAL COMMENTS AND RECOMMENDATIONS**

#### ***Insurance Products, page 5***

During the review of the Certificate of Authority, it was noted that the Company is writing wind coverage also without authority. It is recommended that the Company add wind and liability to its Certificate of Authority.

#### ***Reinsurance, page 7***

Cedar Fork has cooperative agreements with Farmers Union Co-operative Insurance Company of Nebraska. The agreement does not contain a hold harmless clause. It is recommended that the Company amend the agreement to obtain a hold harmless clause.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events.


**ACKNOWLEDGMENT**

The assistance and cooperation extended by the directors, officers and employees of the Cedar Fork Mutual Aid Society, Inc. in the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

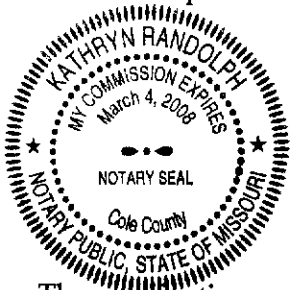
State of Missouri )  
                          ) ss  
County of Cole    )

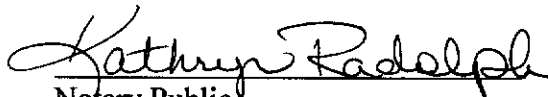
I, Larry J. Kleffner, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony 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.

  
Larry J. Kleffner, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 3<sup>rd</sup> day of October, 2006.

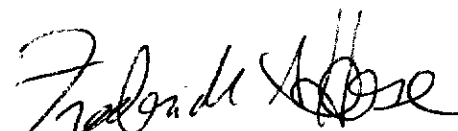
My commission expires:



  
Kathryn Randolph  
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.

  
Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance