



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

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

RE: Examination Report of Chariton County Mutual Insurance Company for the period ended December 31, 2013

**ORDER**

After full consideration and review of the report of the financial examination of Chariton County Mutual Insurance Company for the period ended December 31, 2013, 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 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Chariton 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) implement, and verify compliance with, each item mentioned in the Summary and/or Recommendations, if any, 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 26th day of June, 2015.



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  
**CHARITON COUNTY MUTUAL  
INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2013

**FILED**

JUN 26 2015

DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	4
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	
Assets	8
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
SUMMARY OF RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

March 16, 2015  
Mendon, 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

### **CHARITON COUNTY MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 404 Main Street (P.O. Box 26), Mendon, Missouri 64660, telephone number (660) 272-3322. This examination began on March 2, 2015 and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Territory & Plan of Operation**

*Comment:* It was recommended the Company amend its independent agency agreements to contain provisions requiring the agents to purchase errors and omissions insurance. In addition, the Company should actively monitor the status of the agent errors and omissions coverage, requiring its agents to provide evidence of policy renewals.

*Company Response:* The agent agreement was revised as of September 18, 2009 in response to the item for purchasing errors and omissions coverage insurance.

*Current Findings:* The Company's current agent agreement contains provisions requiring the agents to obtain errors and omissions insurance. The Company monitors compliance with the requirement.

## **HISTORY**

### **General**

The Company was originally organized on August 5, 1895, and was incorporated on October 10, 1895, as Farmers Mutual Fire Insurance Company of Chariton County. On March 30, 2000, the Company changed its name to Chariton County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the last Thursday 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 a two-thirds majority of the Board of Directors and shall be called upon petition of one-fourth of the members. Eight 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 month. With the exception of the President, directors are compensated \$125 per each meeting attended plus mileage. The President is compensated \$175 per each meeting attended plus mileage.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
William Wilkey Salisbury, Missouri	Farmer	2014
John Summers Triplett, Missouri	Vice-President/Farmer	2014
Duane Leimkuehler Brunswick, Missouri	Farmer	2016
William Marek Salisbury, Missouri	Owner-Meat Processing	2015
Ronald McGilvray Mendon, Missouri	President/Farmer	2016
Meredith Manson Brunswick, Missouri	Farmer	2016
Mark Ramsey Salisbury, Missouri	Banker	2015
Vernon Vaughn Marceline, Missouri	Retired Railroad Employee	2015
Floyd Rodgers New Cambria, Missouri	Retired Mutual Manager	2014

The Board of Directors elects for a term of one year the officers of the Company. The officers of the Company serving at December 31, 2013, were as follows:

Ronald McGilvray	President
John Summers	Vice-President
Phillip Spencer	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, reviews possible risks noted and addresses any potential material conflicts.

## **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles nor the Bylaws were 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 policies for investments and underwriting were reviewed. 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 directors' and officers' liability coverage. The Company's in-house agency purchases errors and omissions insurance for its captive agents, and the Company's independent agent is required to carry errors and omissions coverage.

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

## **EMPLOYEE BENEFITS**

The Company has four full-time employees. The employee benefits package offered by the Company includes contributions to individual retirement accounts, profit sharing, and paid time off.

## **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, wind and liability insurance in all counties in the State of Missouri and writes all three lines.

The Company's policies are sold by one independent agency and one captive agency. The captive agency has four in-house agents that are also salaried employees of the Company and do not receive commissions. The commission paid to the independent agency is 15% for fire and allied lines and 17% for comprehensive personal liability and farm liability.

### Policy Forms and Underwriting Practices

The Company uses AAIS policy forms for all property lines and Grinnell Mutual Reinsurance Company policy forms for liability lines. The policies are continuous and renewed every 3 years. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company's in-house agents.

### **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>
2013	\$5,070,800	\$ 632,750	\$1,189,008	\$452,090	\$124,461	\$163,760	\$277,460
2012	4,766,127	570,860	1,126,407	464,312	122,401	179,825	279,241
2011	4,465,909	549,883	1,096,168	594,122	114,807	80,586	177,587
2010	4,318,934	580,495	1,055,246	451,860	99,285	65,695	141,037
2009	4,080,998	483,596	1,013,587	399,452	114,823	260,504	346,792

At year-end 2013, 1,198 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>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Direct	\$ 1,189,008	\$ 1,126,407	\$ 1,096,168	\$ 1,055,246	\$ 1,013,587
Assumed	0	0	0	0	0
Ceded	<u>(238,400)</u>	<u>(206,793)</u>	<u>(188,233)</u>	<u>(169,193)</u>	<u>(152,350)</u>
Net	<u>\$ 950,608</u>	<u>\$ 919,614</u>	<u>\$ 907,935</u>	<u>\$ 886,053</u>	<u>\$ 861,237</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 aggregate excess reinsurance contract for fire, wind, and liability risks. The aggregate excess portion of the agreement covers fire and wind risks with a limit of \$1,000,000 per exposure except on Farm Machinery and Equipment Storage buildings, which has a limit of \$2,000,000 per exposure. The company's annual aggregate net retention, or attachment point, is based upon the company's ten-year average 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 2013 was \$606,372.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 20% ceding commission.

Under the facultative reinsurance portion of the agreement, the Company may cede risks to the reinsurer that exceeds the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

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 maintains its records on an accrual basis. The Company maintains all policies on their APPS software provided through IMT Corporation. The Company processes all new policies, amendments, premium receipts, claims and adjustments through this program with hard copy applications and documents kept and stored as long as the policy is open.

The CPA firm of Harden, Cummins, Moss & Miller, LLC, performs the annual audit of the Company's 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, 2013, 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.

**ASSETS**  
**December 31, 2013**

Bonds	\$ 1,434,042
Mutual Funds	492,980
Real Estate	9,000
Cash on Deposit	2,827,983
Other Investments-Annuities	272,643
Reinsurance Recoverable	746
Federal Income Tax Recoverable	7,360
Interest Due and Accrued	23,427
Prepaid Insurance	<u>2,619</u>
 Total Assets	 <u>\$ 5,070,800</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2013**

Net Losses Unpaid	\$ 51,214
Ceded Reinsurance Payable	20,303
Unearned Premium	523,082
Accrued Expenses	37,316
Accounts Payable	750
Payroll Tax	<u>85</u>
 Total Liabilities	 <u>\$ 632,750</u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>4,288,050</u>
 Total Surplus	 <u>4,438,050</u>
 Total Liabilities and Surplus	 <u>\$ 5,070,800</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2013**

Net Premiums Earned	\$ 920,406
Other Insurance Income	3,365
Net Losses & Loss Adjusting Expenses Incurred	(470,868)
Other Underwriting Expenses Incurred	(289,143)
	<hr/>
Net Underwriting Income (Loss)	\$ 163,760
Net Investment Income	124,461
Other Income	5,039
	<hr/>
Gross Profit (Loss)	\$ 293,260
Federal Income Tax	(15,800)
	<hr/>
Net Income (Loss)	<u>\$ 277,460</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2013**

Policyholders' Surplus, December 31, 2012	\$ 4,195,267
Net Income (Loss)	277,460
Unrealized Loss on Mutual Funds	(34,677)
	<hr/>
Policyholders' Surplus, December 31, 2013	<u>\$ 4,438,050</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **SUMMARY OF RECOMMENDATIONS**

None.

### **SUBSEQUENT EVENTS**

On January 2, 2015, the Company purchased the Phillip W. Spencer Agency from their in-house agent Phillip Spencer for \$250,000. An initial installment of \$50,000 was paid by the Company on that date. In addition, the Company issued a promissory note payable with a principal of \$200,000 and a 1.75% per annum interest rate. Under the terms of the note, annual principal payments of \$50,000 plus interest are to be paid by the Company on each January 2<sup>nd</sup> through 2019.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Chariton County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri        )  
  )  
County of Cole         )

I, Jeffery W. Buschmann 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.

*J. Buschmann*  
Jeffery W. Buschmann, AFE  
Financial Examiner /Analyst  
Missouri DIFP

Sworn to and subscribed before me this 19<sup>th</sup> day of May, 2015.

My commission expires:

04-14-2016

*Beverly M. Webb*  
Notary Public

BEVERLY M. WEBB  
My Commission Expires  
April 14, 2016  
Clay County  
Commission #12464070



**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.

*Mark Nance*  
Mark Nance, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP