STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Gasconade Farmers Mutual Fire Insurance Company for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Gasconade Farmers Mutual Fire Insurance Company for the period ended December 31, 2011, 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 Gasconade Farmers Mutual Fire 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 General Comments 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 21st day of March 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

Gasconade Farmers Mutual Fire Insurance Company

AS OF
DECEMBER 31, 2011

FILED
MAR 21 2013
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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December 13, 2012
Hermann, 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

Gasconade Farmers Mutual Fire Insurance Company

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 200 East First Street (P.O. Box 87), Hermann, Missouri 65041; telephone number (573) 486-3137. This examination began December 10, 2012, and concluded on December 12, 2012, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2006, and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2007 through December 31, 2011, and was conducted by an examiner from the Missouri Department of Insurance, Financial Institutions and Professional Registration.

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

1. **Comment:**

   The Company is directed to modify its investment portfolio to comply with the provisions of 20 CSR 200-12.020 (Approved Investments).

   Company Response:

   The Company agreed to comply with this recommendation.

   Current Finding:

   The Company has again exceeded the investment limitations of 20 CSR 200-12.020. See comments in the Notes to the Financial Statements and Summary of Recommendations sections of this report.

HISTORY

General

The Company was originally organized in August of 1886, as Boulware Farmers Aid Association and was incorporated in 1905 as the Gasconade Farmers Mutual Fire Insurance Company.

The Company has a Certificate of Authority dated June 18, 1997, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies).

Management

The Company is managed by a board of five directors, serving staggered, three-year terms. Directors are elected at annual membership meetings held on the first Thursday of every March. Ten members shall constitute a quorum at membership meetings. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The board meets approximately 3-4 times per year and directors receive $100 per meeting. All directors are also policyholders.

The Board consisted of the following members as of December 31, 2011:

Name / Address	Occupation	Term
Hoyt C. Stemme 523 East 7th Street Hermann, MO 65041	Insurance Agent	2011-2014
Charles W. Rost 70 Malfunction Trail Chamois, MO 65024	Farmer	2009-2012
Linda A. Stemme 5956 Old Zero Road Hermann, MO 65041	Real Estate Sales Associate/ Insurance Agent	2009-2012
Olan W. Stemme 5956 Old Zero Road Hermann, MO 65041	Real Estate Broker/ Insurance Agent	2010-2013
Michael D. Sloan 234 East 1st Street Hermann, MO 65041	Restaurant Owner/Operator	2011-2014

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, 2011 were as follows:

Hoyt C. Stemme	President
Charles W. Rost	Vice President
Linda A. Stemme	Treasurer
Olan W. Stemme	Secretary/Manager

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its December 12, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of $25,000 from Western Surety Company. This coverage meets the minimum amount recommended in the NAIC Financial Examiners Handbook for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of $3 million.

The independent agency used by the Company, Heritage Agency-Real Estate and Insurance, LLC carries Errors and Omissions Liability insurance through MAMIC Mutual Insurance Company with a limit of liability of $1 million. The agency purchases the coverage.

The Company's insurance coverage appears adequate and in compliance with the requirements of Missouri Regulation 20 CSR 200-12.030.

EMPLOYEE BENEFITS

The Company currently has three part-time employees. Employees receive vacation, holidays, health insurance and participate in a simple IRA retirement plan with Company match.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated June 18, 1997 and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Gasconade and surrounding counties. Insurance is provided on an assessable basis. Advertising consists primarily of participation in scholarship programs and other local events.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms and writes both continuous policies and policies renewed on a three-year term. Inspections are performed primarily by the agents upon policy issuance

and every three years thereafter. Claims are adjusted primarily by outside adjusters. The Company's policies are marketed by an independent insurance agency, Heritage Agency, LLC. The commission rates are 15% for new policies, 12% on renewals and 10% on liabilities policies (both new and renewal).

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$1,175,510	$ 33,871	$ 497,471	$ 174,906	$ 41,814	$ (55,039)	$ (10,297)
2010	1,159,271	7,334	514,655	189,007	42,082	881	42,963
2009	1,116,038	7,064	527,600	147,531	17,387	52,407	69,794
2008	1,041,734	2,554	539,546	344,284	45,380	(39,867)	5,518
2007	1,041,028	7,365	581,154	130,945	48,230	169,249	217,479

At year-end 2011, there were 1,491 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:

	2007	2008	2009	2010	2011
Direct	$ 574,628	$ 533,094	$ 521,074	$ 507,722	$ 489,428
Assumed	6,526	6,452	6,526	6,933	8,043
Ceded	(180,455)	(146,200)	(149,088)	(151,132)	(148,508)
Net	$ 400,699	$ 393,346	$ 378,512	$ 363,523	$ 348,963

Assumed

The Company participates in the MAMIC Mutual Insurance Company D/O and E/O reinsurance pool. An immaterial amount of assumed premiums and losses is reported due to the Company's participation in this pool.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for fire, wind and liability risks. The per-risk excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company retains $50,000 per risk under the first layer and $200,000 per risk under the second layer. The reinsurer's limits are $150,000 under the first layer and $400,000 under the second layer. The reinsurance rate is 5.5% and 3.0% of net written premium for layers one and two, respectively.

The catastrophe excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company's aggregate net retention, or attachment point, for the first layer is equal to 75% of net written premium. The reinsurer has a limit of liability equal to 50% of net written premium. The attachment point for the second layer is equal to 125% of net written premiums. The reinsurer is liable for 100% of losses in excess of the attachment point with no limit of liability. The reinsurance rate for the aggregate coverage is 7.0% and 3.0% of net written premium for layers one and two, respectively.

The contract also has a quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 25% ceding commission.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. Policyholder information is maintained on a custom designed database using "Nutshell" and "Sage Accounting" software. The Company prepares the financial statements and Annual Statements. Thomas J. Metcalf, CPA prepares the Company's tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2011, 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, 2011

Bonds	$ 799,870
Stocks (Note 1)	0
Mutual Funds (Notes 1 and 2)	157,203
Cash on Deposit	27,361
Other Investments	177,756
Reinsurance Recoverable on Paid Losses	4,139
Interest Due & Accrued	3,453
Other Write-In Assets	5,728
Total Assets	$1,175,510

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Unpaid Losses	$ 18,266
Other Write-In Liabilities	15,605
Total Liabilities	$ 33,871
Guaranty Fund	$ 150,000
Other Surplus	991,639
Total Surplus	$1,141,639
Total Liabilities and Surplus	$1,175,510

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 348,963
Other Insurance Income	27,711
Net Losses & Loss Adjustment Expenses Incurred	(211,561)
Other Underwriting Expenses Incurred	(220,152)
Net Underwriting Income (Loss)	$ (55,039)
Investment Income	$ 41,814
Other Income	2,928
Gross Profit (Loss)	$ (10,297)
Federal Income Tax	0
Net Income (Loss)	$ (10,297)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 1,151,937
Net Income (Loss)	(10,297)
Policyholders' Surplus, December 31, 2011	$ 1,141,640

NOTES TO THE FINANCIAL STATEMENTS

Note 1-Stocks/Mutual Funds

Stocks	$0
Mutual Funds	$157,203

The Company included its mutual fund investments in the Stocks account. The total of the funds was $157,203. An examination change was made to reclassify the value of the funds from Stocks to Mutual Funds.

Note 2-Mutual Funds

The investment limitations imposed by 20 CSR 12.020 include a requirement that no more than 10% of an extended Missouri mutual's admitted assets may be invested in the aggregate in mutual funds. The Company's investment in mutual funds was approximately 14% of admitted assets as of December 31, 2011.

The Company should monitor its investment positions in the future to ensure compliance with 20 CSR 12.020.

EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2011			$1,141,639
	Increase in Surplus	Decrease in Surplus	
Stocks	$0	$157,203	
Mutual Funds	$157,203	$0	
Total Change	$157,203	$157,203	$0
Total Policyholder Surplus Per Examination, December 31, 2011			$1,141,639

SUMMARY OF RECOMMENDATIONS

Notes to the Financial Statements (Page 10)

The Company should monitor its investment positions in the future to ensure compliance with 20 CSR 12.020.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz 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.

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 22nd day of Jan., 2012.

My commission expires:

May 11, 2016

ANDREA V. MOFFATT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 11, 2016
Commission Number: 12552590

Andrea V. Moffatt
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.

Michael Shadowens, CFE
Audit Manager-St. Louis
Missouri DIFP