

REPORT OF  
FINANCIAL EXAMINATION  
**Farm Mutual Insurance of  
St. Francois County**

As of:

December 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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May 4, 2007  
Farmington, MO

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

Dear Sir:

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

**Farm Mutual Insurance of St. Francois County**

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 1109A Ste. Genevieve Avenue, Farmington, Missouri 63640; telephone number (573) 756-1510. This examination was conducted at the home office in Farmington, Missouri. The examination began May 1, 2007, and concluded May 4, 2007.

**SCOPE OF EXAMINATION**

Period Covered

The Company was last examined by the Missouri Department of Insurance, Financial Institutions and Professional Registration in 2002 for the year ending December 31, 2001. The current examination covers the period from January 1, 2002, through December 31, 2006, and was conducted by an examiner from the Missouri Department of Insurance, Financial Institutions and Professional Registration.

Procedures

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

Comments – Previous Examination

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

1. **Comment:** History – Conflict of Interest

It is recommended that the Company obtain conflict of interest forms on an annual basis.

**Company Response:** The Conflict of Interest Statements will be updated at the next board meeting. The Company will then obtain them on an annual basis.

**Current Findings:** Conflict of interest statements are completed on an annual basis.

## HISTORY

### General

The Company was organized in 1895 as the Farmers Mutual Fire Insurance Company of St. Francois County, Missouri. The Company received a Certificate of Incorporation from the Missouri Secretary of State on November 21, 1895.

The Company has a Certificate of Authority dated September 16, 1998, approving it to operate as a Part II mutual and is operating under the provisions of Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

### Management and Control

A board of nine directors provides oversight of the Company. Each director serves a three-year term. Directors are elected at annual membership meetings held on the first Friday in March. The board of directors may call special meetings of the membership at any time or upon petition of one-fourth of the membership. Eight members shall constitute a quorum at any membership meeting.

The management of the Company is vested in the board of directors, which meets quarterly. The directors receive \$70 compensation for each meeting attended and may receive additional compensation for extraordinary meetings attended.

The board of directors consisted of the following members as of December 31, 2006, holding the offices indicated:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
Kenneth Graham, President 7956 Coffman Rd. Farmington, MO 63640	Farmer	2006 to 2009
Edwin Mount, Vice President 6104 Glore Rd. Park Hills, MO 63601	Farmer	2004 to 2007

Claudia VarVera, Secretary / Treasurer 602 S. Jefferson St. Farmington, MO 63640	Manager – Farm Mutual Insurance of St. Francois County	2004 to 2007
Charles Belken 8028 Coffman Rd. Farmington, MO 63640	Farmer	2004 to 2007
Ron Hale 2587 Hwy. OO Farmington, MO 63640	Farmer	2006 to 2009
Tom Heberlie 4079 Westover Rd. Bonne Terre, MO 63628	Farmer	2005 to 2008
Tim Mattingly 2035 Knob Lick Rd. Farmington, MO 63640	Environmental Specialist	2006 to 2009
Dennis Norris 4535 Westover Rd. Bonne Terre, MO 63628	Farmer	2005 to 2008
Warren Shelley 5315 Aulsbury Chapel Rd. Bonne Terre, MO 63628	Farmer	2005 to 2008

### Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors. These statements did not disclose any known 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 amended its bylaws in 2006. The amendment established a policy reinstatement fee of \$25. The Company is following the guidelines established in the articles of incorporation and bylaws. The 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, Financial Institutions and Professional Registration report of examination during its meeting on September 25, 2002. 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. MAMIC Mutual Insurance Company provides directors' and officers' liability coverage, with an aggregate limit of \$2,000,000. MAMIC Mutual Insurance Company also provides each agent with errors and omissions coverage, with an aggregate limit of \$500,000.

The Company has a property policy for its home office issued on its own paper with a limit of \$200,000 for the office building and \$10,000 for contents. The Company purchased the building in 1994 and has performed no material improvements other than regular maintenance. The Company is reporting the building on its Annual Statement at \$246,412, which was the cost in 1994. The Company may have under insured its office building. The Company should obtain an appraisal of the property to determine the current value of the building and adjust its insurance coverage accordingly.

The Company has a commercial general liability policy with Grinnell Mutual Reinsurance Company, with an aggregate limit of \$1,000,000. Employees are also protected by a workers compensation policy from Grinnell Mutual Reinsurance Company.

During 2002, the Company was notified its fidelity coverage would not be renewed by Columbia Mutual Insurance Company. The Company is applying for coverage of \$50,000. Once coverage has been placed with a new carrier, the Company should send a copy of the declaration page to the Department of Insurance, Financial Institutions and Professional Registration.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has one full-time and one part-time office employee. The Company does not provide any benefits and there is no pension plan.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Territory and Plan of Operations

The Company is licensed by the Department of Insurance, Financial Institutions and Professional Registration to operate under the provisions of Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage throughout Missouri, but concentrates mainly in St. Francois and surrounding counties.

The Company's policies are marketed by four captive agents, receiving a commission of 12% of gross premium.

### Policy Forms and Underwriting Practices

The Company uses policy forms supplied by Grinnell Mutual Reinsurance Company. Policies are written for three-year terms. Inspections are performed by the agents and are completed on all new applications. Inspections are then completed every three years.

The agents adjust all property losses. Grinnell Mutual Reinsurance Company does the adjusting for liability claims. Payment is made after a satisfactory signed proof of loss is received.

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

Year	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Admitted Assets	\$1,780,422	\$1,734,299	\$1,489,584	\$1,237,378	\$1,098,783
Liabilities	\$0	\$0	\$0	\$0	\$0
Gross Assessments	\$613,711	\$588,173	\$524,957	\$445,665	\$321,714
Losses Incurred	\$308,815	\$107,754	\$71,400	\$143,027	\$143,393
Investment Income	\$52,698	\$41,460	\$36,997	\$29,932	\$32,391
Underwriting Income	\$(10,277)	\$190,664	\$200,470	\$97,731	\$43,326
Net Income	\$46,123	\$244,715	\$252,207	\$138,594	\$111,386
Policies In Force	1,124	1,137	1,060	957	921

These figures are based on data from annual statements provided by the Company. There has been a steady increase in the number of policies in force each year. The Company has shown a net profit during all years under examination.

### **REINSURANCE**

#### Assumed

None.

#### Ceded

The Company has a reinsurance agreement with Grinnell Mutual Reinsurance Company. In-force business is protected by the following coverage:

***Aggregate Excess Reinsurance*** This agreement requires the reinsurer to cover 100% of losses in excess of the Company's retention limit. The retention limit is a calculated amount that includes, but is not limited to, the company's ten-year average fire loss ratio, gross fire risks in force and a load factor. The Company's retention amount for 2006 was \$308,287 with an associated premium rate of \$0.3768 per \$1,000 of gross fire risk in force.

In addition to the above, the Company has an Organizational Agreement that allows the Company to offer liability coverage on Grinnell's forms. The policies are issued by the Company and submitted to Grinnell. A 20% commission is received on this business.

### **ACCOUNTS AND RECORDS**

Accounting records for premiums, claims, accounting and financial reporting are kept manually by the Company's manager. The Company prepares its Annual Statement on a strictly cash basis.

The Company did not report all outstanding payables on the Annual Statement. A Missouri quarterly tax payment was overlooked. The Company should ensure all outstanding payables are properly reported on future Annual Statement filings.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of 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, and therefore were only noted in the workpapers for each individual annual statement item.

### **ADMITTED ASSETS**

Bonds	\$10,090
Real Estate	246,412
Cash on Deposit	<u>1,523,920</u>
<b>Total Assets</b>	<b><u>\$ 1,780,422</u></b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

<b>Total Liabilities</b>	<b>\$0</b>
Guaranty Fund	\$150,000
Other Surplus	1,630,422
<b>Total Policyholder Surplus</b>	<b>\$ 1,780,422</b>
<b>Total Liabilities and Surplus</b>	<b>\$ 1,780,422</b>

## STATEMENT OF INCOME

Net Earned Assessment / Premium Income	\$ 455,364
Bonus/Commission from Reinsurer	721
Net Losses & Loss Adjustment Expense	(309,854)
Underwriting Expenses	(156,507)
<b>Net Underwriting Income (Loss)</b>	<b>\$ (10,277)</b>
Investment Income	\$52,698
Other Income	17,953
Gross Profit or (Loss)	60,374
Federal Income Tax	(14,252)
<b>Net Profit or (Loss)</b>	<b>\$ 46,122</b>

## CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2005	\$ 1,734,299
Net Profit of (Loss)	46,123
Examination Changes (Net)	-
<b>Policyholder Surplus, December 31, 2006</b>	<b>\$ 1,780,422</b>

## NOTES TO FINANCIAL STATEMENTS

None.

### EXAMINATION CHANGES

None.

### GENERAL COMMENTS AND/OR RECOMMENDATIONS

#### *Fidelity Bond and Other Insurance - Appraisal*

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The Company may have under insured its office building. The Company should obtain an appraisal of the property and determine the current value of the building and adjust its insurance coverage accordingly.

#### *Fidelity Bond and Other Insurance – Fidelity Coverage*

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During 2002, the Company was notified its fidelity coverage would not be renewed by Columbia Mutual Insurance Company. The Company recently began replacing the coverage. The Company is applying for coverage of \$50,000. Once coverage has been placed with a new carrier, the Company is directed to send a copy of the declaration page to the Missouri Department of Insurance, Financial Institutions and Professional Registration.

#### *Accounts and Records*

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The Company did not report all outstanding payables on the Annual Statement. A Missouri quarterly tax payment was overlooked. The Company should ensure all expenses are properly reported on future Annual Statement filings.

### SUBSEQUENT EVENTS

There were no significant subsequent events.

