

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
GASCONADE FARMERS MUTUAL FIRE  
INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2006**



**STATE OF MISSOURI**

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

**JEFFERSON CITY, MISSOURI**

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June 14, 2007  
Hermann, 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

### **GASCONADE FARMERS MUTUAL FIRE INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 200 East First Street (P.O. Box 87), Hermann, Missouri 65041, telephone number (573) 486-3137. This examination began on June 13, 2007, and was concluded on June 14, 2007, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope 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.

#### **Previous Examination Report**

**Comment:** The Board should formally document the lease and expense sharing agreement with the Heritage Agency (The Heritage Agency is one the two agencies utilized by the Company. The Heritage Agency is owned by the Company Secretary and Treasurer. The Company and the Heritage Agency share office space that serves as home offices for both of the companies).

**Company Response:** The Company entered into the General Expense Agreement with the Heritage Agency.

**Current Findings:** The Company has a General Expense Agreement with the Heritage Agency that outlines the cost sharing arrangement between the two entities.

**Accounts and Records**

**Comment:** The Company should seek immediate approval of its investment portfolio from the Director and institute an investment policy outlining the Company’s goals and ensuring its compliance with Missouri statutes.

**Company Response:** The Company submitted approval for its investment portfolio and drafted an investment policy.

**Current Findings:** The Company received approval of its investment portfolio, within the limits of Missouri regulations, and drafted an investment policy. However, certain areas of the Company’s current investment portfolio exceed some of the limitations set in Missouri regulations (See the Accounts and Records section 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). 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 first Thursday in March at the home office of the Company or at such place designated by the Board of Directors. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not addressed by the Articles of Incorporation.

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 five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and directors are compensated \$75 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>
Charles W. Rost Route 1, Box 66 Chamois, Missouri	Farmer	2006-2009
Denise Tyler HCR 3, Box 108T Belle, Missouri	Legal Assistant	2005-2008
Linda A. Stemme 5956 Old Zero Road Hermann, Missouri	Real Estate Agent/Insurance Agent	2006-2009
Olan W. Stemme 5956 Old Zero Road Hermann, Missouri	Company Manager/ Real Estate Agent/ Insurance Agent	2004-2007

Hoyt C. Stemme  
523 East 7<sup>th</sup> Street  
Hermann, Missouri

Insurance Agent

2005-2008

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:

Charles W. Rost	President
Denise Tyler	Vice-President
Olan W. Stemme	Secretary
Linda A. Stemme	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. No conflicts of interest were disclosed in the statements.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. There were no amendments to the Articles of Incorporation or the Bylaws during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. 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 \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$500,000 and a \$5,000 deductible in aggregate for each claim.

The Company requires its agents to purchase errors and omissions coverage and provide evidence of such coverage on an annual basis.

The Company does not have a home office and has limited business property, and therefore does not carry property insurance.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has three part-time employees. The Company provides the employees with health insurance, paid vacation and makes an annual contribution to each employee's Simple IRA. 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, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by 2 licensed agencies, who receive a commission of 15% on new and 12% on renewal property coverage and 10% on liability coverage.

### **Policy Forms and Underwriting Practices**

The Company uses AAIS policy forms. The policies are renewed on a three year term. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents and adjusting services are performed by independent adjusters.

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

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2006	\$865,185	\$49,002	\$609,065	\$379,902	\$45,582	\$(154,619)	\$(109,037)
2005	956,707	31,487	641,021	223,203	18,567	27,934	46,501
2004	888,785	10,066	600,602	207,990	(23,212)	82,984	75,852
2003	815,227	12,360	533,499	258,884	(31,218)	(73,812)	(85,912)
2002	887,619	10,591	502,173	114,060	14,977	109,321	138,397

At year-end 2006, 1,976 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	\$502,173	\$533,499	\$600,602	\$641,021	\$609,065
Assumed	0	0	0	0	0
Ceded	<u>(106,025)</u>	<u>(173,223)</u>	<u>(148,828)</u>	<u>(190,093)</u>	<u>(165,243)</u>
Net	<u>\$396,148</u>	<u>\$360,276</u>	<u>\$451,774</u>	<u>\$450,928</u>	<u>\$443,822</u>

#### **Assumed**

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 2% share in the interests and liabilities of the pool.

#### **Ceded**

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$50,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$150,000 and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$200,000 for commercial and confinement risks and \$400,000 for all other risks. The 2006 premium rate, as a percentage of written premiums, equaled 5.42% for layer one coverage and 2% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$155,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,155,000, and the reinsurer's limit is 100% of \$2,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$4,000,000 for the second layer. The 2006 premium rate was \$.1548 and \$.1250 per \$1,000

total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 100% of losses in excess of 75% of the Company's net written premium, with no annual limit. The 2006 reinsurance rate was 7% of written premium.

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 22% ceding 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. The Company prepares the annual statement and tax filings.

The Company's investments in corporate bonds and mutual funds are not in compliance with Missouri regulations. 20 CSR 200-12.020 (Approved Investments) allows for such investments, but limits the allowed investment to 5% of the Company's admitted assets in any individual issuer. At December 31, 2006, the Company's reported investment in General Electric bonds of \$75,176, or 9% of total admitted assets, which exceeds the 5% regulatory threshold by \$31,917. In addition, the Company held investments in Franklin Income mutual funds totaling \$89,996, or 10% of total admitted assets, which exceeds the 5% regulatory threshold by \$46,737. The Company is directed to modify its investment portfolio to comply with the provisions of 20 CSR 200-12.020 (Approved Investments).

#### **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**

Bonds	\$ 470,058
Stocks	174,308
Cash on Deposit	174,555
Accrued Interest	8,371
MAMIC E&O/D&O Program Investment	35,715
Reinsurance Receivable	2,178
	-----
Total Assets	<u><u>\$ 865,185</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2006**

Gross Losses Unpaid	\$ 46,830
Other Liabilities	2,172
	-----
Total Liabilities	\$ 49,002
	-----
Guaranty Fund	\$ 180,300
Other Surplus	635,883
	-----
Total Surplus	816,183
	-----
Total Liabilities and Surplus	<u><u>\$ 865,185</u></u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2006**

Net Premiums Earned	\$ 449,766
Other Insurance Income	43,335
Net Losses & Loss Adjustment Expenses Incurred	(432,903)
Other Underwriting Expenses Incurred	(214,817)
	-----
Net Underwriting Income (Loss)	\$ (154,619)
Investment Income	\$ 45,582
	-----
Gross Profit (Loss)	\$ (109,037)
Federal Income Tax	0
	-----
Net Income (Loss)	\$ (109,037)
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2006**

Policyholders' Surplus, December 31, 2005	\$ 925,220
Net Income (Loss)	(109,037)
	-----
Policyholders' Surplus, December 31, 2006	\$ 816,183
	=====

**NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

**EXAMINATION CHANGES**

There were no examination changes.

**GENERAL COMMENTS AND RECOMMENDATIONS**

**Accounts and Records (Page 5)**

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

**SUBSEQUENT EVENTS**

None.

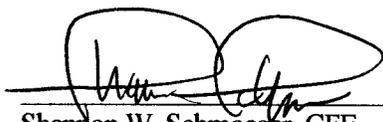
**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees 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, Shannon W. Schmoeger 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.

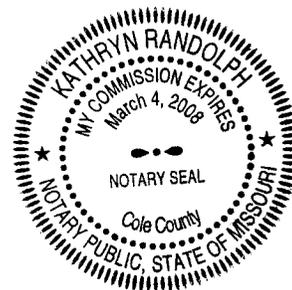
  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 19<sup>th</sup> day of July, 2007.

My commission expires:

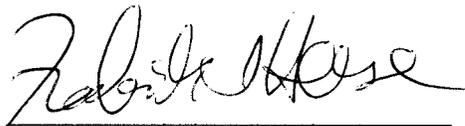
March 4, 2008

  
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. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP