REPORT OF
FINANCIAL EXAMINATION

GERMAN SALEM AID ASSOCIATION OF MISSOURI

AS OF
DECEMBER 31, 2003

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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March 19, 2004
California, Missouri

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

Sir:

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

GERMAN SALEM AID ASSOCIATION OF MISSOURI

hereinafter referred to as such, or as the "Company." The Company's home office and principal place of business is located at 904 Wayne, California, Missouri 65018, telephone number (573) 796-4998. This examination began on March 18, 2004, and was concluded on March 19, 2004, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1998, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included the 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 Missouri Department of Insurance 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, 1998, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Corporate Records

Comment: It was recommended the Company put more Company policies in writing.

Company Response: The Company will try to put more Company Policies in writing.

Current Findings: The Company does not have a written policies and procedures manual containing the Company's policies (See the Corporate Records section of this report).

Accounts and Records

Comment: It is recommended that the Company comply with Section 380.471 RSMo (Investments) by ensuring that no investments in any one institution exceed FDIC insurance coverage of $100,000.

Company Response: The Company will reduce the investment in the bank which exceeds $100,000 when a certificate of deposit matures.

Current Findings: The Company's investments in two financial institutions exceeded the FDIC insurance coverage of $100,000 (see the Accounts and Records section of this report).

HISTORY

General

German Salem Aid Association of Missouri was originally established and incorporated on April 4, 1893.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 last Saturday of February, 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 the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Voting by proxy is not addressed in 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 will consist of nine directors, serving three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately on a quarterly basis, and the directors are compensated $60 per each attended meeting.

Members serving on the Board of Directors as of December 31, 2003, were as follows:

Name and Address	Occupation	Term
Jerry Wolfrum 32165 Wieneke Branch Road California, Missouri	Farmer/Agent	2001-2004
Don Wyss 55790 Highway A Russellville, Missouri	Retired/Farmer	2003-2006
Dan Schroeder	Construction/Farmer	2001-2004

9621 Shikles Road Russellville, Missouri		
Ronald Kirchoff 34859 Cloverdale Road California, Missouri	Retired/Farmer	2002-2005
Robert Crawford 32178 Highway 87 California, Missouri	Retired/Farmer	2002-2005
Jim Langkop 27977 Rocky Road California, Missouri	Laborer/Farmer	2003-2006
Kenyon Maier 37415 Highway HH Russellville, Missouri	Custodian/Farmer	2003-2004**(1)**
Robert Kuester 33742 Kubli Road California, Missouri	Construction/Farmer	2002-2005**(2)**
Stanley Dummermuth 904 Wayne Street California, Missouri	Retired/Company Manager	2003-2006

(1) Kenyon Maier was elected to a one-year term at the 2003 Annual Meeting to fill the existing term of Director Oscar Hagemeyer, who retired in 2002.

(2) Due to the death of Director Robert Kuester in December 2003, Travis Koestner was elected at the 2004 Annual Meeting to a one-year term.

The Board of Directors appoints a President, a Vice-President, and a Secretary who also serves as Treasurer.

The officers of the Company serving at December 31, 2003, were as follows:

Jerry Wolfrum	President
Bobby Bryant	Vice-President
Stanley Dummermuth	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, and no conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation or the Bylaws since the last exam.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. Although the Board of Directors approve and discuss claims and financial statements, which are documented in the minutes, other verbal Company policies are not placed in writing (Agent Underwriting Policy, Signature of Checks, Investment Policy, etc).

It is recommended that the Board of Directors put more Company policies in writing in the form of a policies and procedures manual. The manual should address the Company's investment, conflict of interest, check signing, employee expense, underwriting, claims payment, inspection and claims payment policies, as well as job descriptions.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a blanket fidelity bond providing a limit of liability of $30,000. The fidelity bond coverage meets the 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 $2,000,000 and deductibles of $500 for each director for each loss, $2,500 in aggregate for each loss as respects directors' and officers' liability, and $5,000 in aggregate for each loss as respects Company reimbursement.

The Company purchases errors and omissions liability insurance coverage of $100,000 for its Secretary-Treasurer/Manager, and $300,000 for its agent.

EMPLOYEE BENEFITS

The Company has two part-time employees. Other than monthly salaries, the Company does not provide any benefits for its employees.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. The Company is authorized to write fire and wind insurance in Cole, Miller, Moniteau and Morgan counties in the State of Missouri. The Company writes fire and wind coverage and offers liability insurance through a cooperative agreement with Cameron Country Mutual Insurance Company.

The Company's policies are sold by the Company's agent, who receives $16.50 per hour plus expenses. The agent's contract contains provisions designating that the agent is responsible for obtaining errors and omissions insurance, the timely delivery of an application to the home office, and that the application should be fully completed before it is delivered to the home office.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms supplied by the Missouri Association of Mutual Insurance Companies and Cameron Country Insurance Company. The policies are renewed every five years. The Company's agent and manager perform the property inspections and claims adjusting. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses Incurred	Investment Income	Underwriting Income	Net Income
2003	$1,167,828	$700	$165,598	$168,147	$25,218	$2,273	$47,208
2002	1,119,975	0	158,131	169,530	35,859	(1,357)	47,358
2001	1,072,618	0	148,386	52,877	53,800	15,970	77,748
2000	994,871	0	142,535	72,638	48,959	7,879	64,689
1999	930,182	0	139,517	27,532	42,419	17,413	65,418

At year- end 2003, 339 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:

	1999	2000	2001	2002	2003
Direct	$137,527	$140,981	$146,158	$156,985	$163,365
Assumed	0	0	0	0	0
Ceded	(82,411)	(84,713)	(84,287)	(100,523)	(55,510)
Net	$55,116	$56,268	$61,871	$56,462	$107,855

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance contract for both fire and wind risks. The per risk excess of loss section of the contract has two layers. The Company retains $10,000 per risk under the first layer and

$110,000 per risk under the second layer. The reinsurer's limits are $100,000 per risk under the first layer. Under the second layer, the reinsurer's limits are $50,000 for commercial and confinement risks and $250,000 for all other risks. The per occurrence limit regarding both layers is $700,000. The reinsurance rate is 20.7% and 2.0% of net written premium for layers one and two, respectively.

The catastrophe excess of loss section of the contract also has two layers. The Company retains $50,000 per occurrence under the first layer and $1,050,000 per occurrence under the second layer. The reinsurer is liable for 95% of the excess, limited to $950,000 under the first layer and $1,000,000 under the second layer. The annual limit is $1,900,000 under the first layer and $2,000,000 under the second layer. Annual premium for the catastrophe coverage is $.0688 per $1,000 in force for layer one and $.0413 per $1,000 in force for layer two.

The contract also provides for aggregate excess of loss coverage. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with a maximum limit of $2,000,000. The reinsurance rate is 2.0% of net written premium.

The Company participates in a contingent profit commission agreement as a part of the reinsurance contract. The commission is based on the number of years the Company has been party to the reinsurance contract and the five-year loss ratio of the Company. The contingent profit commission range is from 0% to 8% of written premium ceded under the contract.

The Company has a cooperative agreement with Cameron Country Mutual Insurance Company for lines of business other than fire and wind. The Company receives a 20% ceding commission for farm and homeowner's liability policies and a 12% ceding commission for general liability and inland marine policies.

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 a cash basis.

The Company's investments in two financial institutions exceeded the FDIC insurance limit of $100,000. It is recommended that the Company maintain cash and cash investments balances at or below FDIC insurance limits or obtain additional insurance on the deposits, in compliance with Section 380.471 RSMo. (Investments).

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2003, 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, 2003

Cash on Deposit	$ 1,167,828

Total Assets	$ 1,167,828
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2003

Losses Unpaid	$ 700

Total Liabilities	$ 0

Guaranty Fund	$ 100,000
Other Surplus	1,067,128

Total Surplus	$ 1,167,128

Total Liabilities and Surplus	$ 1,167,828
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STATEMENT OF INCOME
December 31, 2003

Net Assessments	$ 107,855
Net Losses Incurred	(72,789)
Other Underwriting Expenses	(32,792)

Net Underwriting Profit/Loss	$ 2,273

Investment Income	$25,218
Other Income	19,717

Net Income/Loss	$47,208
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2003

Policyholders' Surplus, December 31, 2002	$ 1,119,920
Net Income/Loss	47,208

Policyholders' Surplus, December 31, 2003	$ 1,167,128
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 5)

It is recommended that the Board of Directors put more Company policies in writing in the form of a policies and procedures manual. The manual should address the Company's investment, conflict of interest, check signing, employee expense, underwriting, claims payment, inspection and claims payment policies, as well as job descriptions.

Investments (Page 9)

It is recommended that the Company maintain cash and cash investments balances at or below FDIC insurance limits or obtain additional insurance on the deposits, in compliance with Section 380.471 RSMo. (Investments).

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of German Salem Aid Association of Missouri 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 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 Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.
My commission expires:

_____ _____
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.

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