

**REPORT OF  
FINANCIAL EXAMINATION**

**JASPER COUNTY MUTUAL INSURANCE  
COMPANY**

**AS OF  
DECEMBER 31, 2005**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

## TABLE OF CONTENTS

| <u>Subject</u>                               | <u>Page</u> |
|--|-------------|
| SALUTATION                                   | 1           |
| SCOPE OF EXAMINATION:                        |             |
| Period Covered                               | 1           |
| Procedures                                   | 1           |
| Comments - Previous Examination Report       | 2           |
| HISTORY:                                     |             |
| General                                      | 3           |
| Management                                   | 3           |
| Conflict of Interest                         | 4           |
| Corporate Records                            | 4           |
| FIDELITY BOND AND OTHER INSURANCE            | 5           |
| EMPLOYEE BENEFITS                            | 5           |
| INSURANCE PRODUCTS AND RELATED PRACTICES:    |             |
| Territory and Plan of Operation              | 6           |
| Policy Forms & Underwriting                  | 6           |
| GROWTH AND LOSS EXPERIENCE OF THE COMPANY    | 6           |
| REINSURANCE:                                 |             |
| General                                      | 7           |
| Assumed                                      | 7           |
| Ceded  | 7           |
| ACCOUNTS AND RECORDS                         | 8           |
| FINANCIAL STATEMENTS:                        |             |
| Analysis of Assets                           | 9           |
| Liabilities, Surplus and Other Funds         | 9           |
| Statement of Income                          | 10          |
| Capital and Surplus Account                  | 10          |
| NOTES TO THE FINANCIAL STATEMENTS            | 11          |
| EXAMINATION CHANGES                          | 11          |
| GENERAL COMMENTS AND/OR RECOMMENDATIONS      | 11          |
| SUBSEQUENT EVENTS                            | 11          |
| ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION | 12          |

July 19, 2006  
Carthage, Missouri

Honorable W. Dale Finke, 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 examination has been made of the records, affairs and financial condition of

**JASPER COUNTY MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 505 South Main, Carthage, Missouri, telephone number (417) 358-2557. This examination began on July 17, 2006, and was concluded on July 19, 2006, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

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 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, 2000, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Conflict of Interest**

**Comment:** It was recommended the Company require its directors and officers to sign conflict of interest statements annually, since potential conflicts may arise over a period of time.

**Company Response:** The Company requires its directors and officers to sign a conflict of interest statement at each annual meeting.

**Current Findings:** The Company's directors and officers executed conflict of interest statements on an annual basis for all years under examination.

#### **Corporate Records**

**Comment:** It was recommended the Company revise its procedure manual to include an investment policy, signature of checks policy and agent payment process.

**Company Response:** The Company revised its procedure manual to address the recommended issues.

**Current Findings:** The Company revised its procedure manual as previously recommended.

#### **Territory and Plan of Operation**

**Comment:** It was recommended that the agent agreements be revised to require the timely delivery of fully completed applications to the home office.

**Company Response:** The Company added an addendum to each agent agreement requiring completed applications be delivered to the home office within forty-eight hours.

**Current Findings:** The agent agreements were revised to adequately address the issue of timely delivery of fully completed applications to the home office.

## HISTORY

### General

The Company was organized in December 1895 and incorporated on December 27, 1902, as Jasper County Farmers Mutual Fire and Lightning Insurance Company. On June 28, 1978, the Company amended its Articles of Incorporation, changing its name to Jasper County Mutual Insurance Company.

The Company has a Certificate of Authority dated January 1, 1985, 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 first Friday 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 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. 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 eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

| <u>Name and Address</u>                                       | <u>Occupation</u> | <u>Term</u> |
|---|-------------------|-------------|
| William F. Ummel<br>2544 Fulton<br>Carthage, Missouri         | Retired           | 2004-2007   |
| Walter H. Wicklund<br>1270 Brynewood Lane<br>Joplin, Missouri | Teacher           | 2003-2006   |

|  |                  |           |
|--|------------------|-----------|
| Shirley Sweeten<br>213 Powell Drive<br>Webb City, Missouri   | Company Manager  | 2004-2007 |
| Frances Farmer<br>8874 Locust Road<br>Carthage, Missouri     | Company Employee | 2005-2008 |
| R. Thomas Elliott<br>137 Par Lane<br>Carl Junction, Missouri | Retired          | 2005-2008 |
| Jeff Ummel<br>5158 Gum Road<br>Reeds, Missouri               | Farmer           | 2003-2006 |
| George Case<br>16736 Civil War Avenue<br>Carthage, Missouri  | Farmer           | 2003-2006 |
| Mark Weng<br>222 South Main<br>Carthage, Missouri            | Funeral Director | 2005-2008 |

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

|                    |                |
|--------------------|----------------|
| William F. Ummel   | President      |
| Walter H. Wicklund | Vice-President |
| Shirley Sweeten    | Secretary      |
| Mark Weng          | 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 material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. On March 1,

2002, the Company amended the Articles of Incorporation to change the required number of directors from nine to eight.

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 \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$1,000,000 and a \$2,500 deductible in aggregate for each claim.

The Company carries errors and omissions liability coverage for its captive agents with an aggregate limit of \$1,000,000 and a \$10,000 deductible for each claim.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has one full-time employee and one part-time employee. The Company contributes 15% of each employee's gross wages into an individual retirement account for the benefit of the employee. The full-time employee receives three weeks of vacation per year. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

## 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. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverages through an agreement with its reinsurer. The Company's policies are sold by seven licensed producers, who receive a 15% commission. Six of the producers are captive and one is an independent producer.

### Policy Forms and Underwriting Practices

The Company uses Grinnell policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. The captive producers perform inspections and adjusting services for the Company.

### GROWTH AND LOSS EXPERIENCE OF THE COMPANY

|      | <u>Admitted<br/>Assets</u> | <u>Liabilities</u> | <u>Gross<br/>Assessment</u> | <u>Gross<br/>Losses</u> | <u>Investment<br/>Income</u> | <u>Underwriting<br/>Income</u> | <u>Net Income</u> |
|------|----------------------------|--------------------|-----------------------------|-------------------------|------------------------------|--------------------------------|-------------------|
| 2005 | \$1,480,851                | \$372,222          | \$842,777                   | \$266,694               | \$45,535                     | \$76,868                       | \$136,697         |
| 2004 | 1,349,532                  | 377,595            | 833,770                     | 328,442                 | 51,765                       | 54,103                         | 120,820           |
| 2003 | 1,196,873                  | 345,756            | 762,247                     | 846,268                 | 47,716                       | (211,361)                      | (143,439)         |
| 2002 | 1,276,505                  | 281,948            | 629,154                     | 314,901                 | 65,100                       | (68,919)                       | 14,305            |
| 2001 | 1,252,309                  | 272,057            | 612,694                     | 437,887                 | 70,024                       | (153,742)                      | (75,245)          |

At year-end 2005, 1,891 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>2001</u>      | <u>2002</u>      | <u>2003</u>      | <u>2004</u>      | <u>2005</u>      |
|---------|------------------|------------------|------------------|------------------|------------------|
| Direct  | \$612,694        | \$629,154        | \$762,247        | \$833,770        | \$842,777        |
| Assumed | 0                | 0                | 0                | 0                | 0                |
| Ceded   | <u>(155,783)</u> | <u>(185,241)</u> | <u>(214,649)</u> | <u>(244,471)</u> | <u>(257,242)</u> |
| Net     | <u>\$456,911</u> | <u>\$443,913</u> | <u>\$547,598</u> | <u>\$589,299</u> | <u>\$585,535</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 individual occurrence of loss excess with aggregate excess reinsurance agreement. The individual excess of loss section of the agreement covers wind and fire risks. The Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2005 was \$.6077 for fire and \$.1149 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire 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 2005 was \$469,898 and the annual premium paid was \$.5174 per \$1,000 of adjusted

gross fire risks in force. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis.

The Company also has an agency organizational agreement with the reinsurer. Under the terms of the agreement, the Company markets liability policies for the reinsurer, and receives a 20% 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 CPA firm of Hardy & Associates, P.C. prepares a compilation report of the Company's financial statements, the annual statement and all tax filings.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, 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, 2005**

|                                |                            |
|--------------------------------|----------------------------|
| Bonds                          | \$ 418,158                 |
| Real Estate                    | 92,742                     |
| Cash on Deposit                | 931,431                    |
| Federal Income Tax Recoverable | 525                        |
| Interest Due and Accrued       | 35,491                     |
| Asset Write-Ins                | 2,504                      |
|                                | -----                      |
| Total Assets                   | <u><u>\$ 1,480,856</u></u> |

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2005**

|                               |                            |
|-------------------------------|----------------------------|
| Ceded Reinsurance Payable     | \$ 21,052                  |
| Unearned Premium              | 339,693                    |
| Liability Write-Ins           | 11,477                     |
|                               | -----                      |
| Total Liabilities             | \$ 372,222                 |
|                               | -----                      |
| Guaranty Fund                 | \$ 150,000                 |
| Other Surplus                 | 958,634                    |
|                               | -----                      |
| Total Surplus                 | \$ 1,108,634               |
|                               | -----                      |
| Total Liabilities and Surplus | <u><u>\$ 1,480,856</u></u> |

**STATEMENT OF INCOME**  
**December 31, 2005**

|  |            |
|--|------------|
| Net Premium                                      | \$ 588,644 |
| Other Insurance Income                           | 0          |
| Net Losses and Loss Adjustment Expenses Incurred | (267,633)  |
| Other Underwriting Expenses                      | (244,143)  |
|  | -----      |
| Net Underwriting Income (Loss)                   | \$ 76,868  |
|  | -----      |
| Investment Income                                | \$ 45,535  |
| Other Income                                     | 21,269     |
|  | -----      |
| Gross Income (Loss)                              | \$ 143,672 |
| Federal Income Tax                               | (6,975)    |
|  | -----      |
| Net Income (Loss)                                | \$ 136,697 |
|  | =====      |

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2005**

|   |              |
|---|--------------|
| Policyholders' Surplus, December 31, 2004 | \$ 971,937   |
| Net Income (Loss)                         | 136,697      |
|   | -----        |
| Policyholders' Surplus, December 31, 2005 | \$ 1,108,634 |
|   | =====        |

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

There were not general comments or recommendations.

## **SUBSEQUENT EVENTS**

None.

