

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Polk County Mutual Insurance Company December 31, 2009

### ORDER

After full consideration and review of the report of the financial examination of Polk County Mutual Insurance Company for the period ended December 31, 2009, 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 Polk County Mutual 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 17<sup>th</sup> day of June 2011.



A handwritten signature in black ink, appearing to read 'John M. Huff'.

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

REPORT OF THE  
FINANCIAL EXAMINATION OF  
POLK COUNTY MUTUAL INSURANCE COMPANY

AS OF  
DECEMBER 31, 2009

FILED  
JUN 17 2011  
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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January 24, 2010  
Bolivar, 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

### **POLK COUNTY MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 705 West Fair Play (P.O. Box 865), Bolivar, Missouri 65613, telephone number (417) 326-4914. This examination began on January 24, 2011, concluded on January 25, 2011, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, 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

There were no comments or recommendation in the previous examination report dated December 31, 2004.

## HISTORY

### General

The Company was originally established and incorporated on December 14, 1897, as Farmers Mutual Fire & Lightning Insurance Company of Polk County. On February 27, 1985, the Company amended its Articles of Incorporation, changing its name to Polk County Mutual Insurance Company.

The Company has a Certificate of Authority dated March 23, 1990, 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 third Monday in 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. Eight members shall constitute a quorum at any membership meeting. Proxy voting is 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 five 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 receive a retainer of \$395 per month.

Members serving on the Board of Directors as of December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Arlene Lear Humansville, Missouri	Insurance Agency Owner	2008-2011
Larry Crocker Pittsburg, Missouri	Owner-Carpet Cleaning Company	2007-2010



Jerry Winfiel Bolivar, Missouri	Accountant	2007-2010
Shanda Sprowls Humansville, Missouri	Bail Bonds Agent	2009-2012
Bobbi Lear Bolivar, Missouri	Cash Advance Manager	2008-2011

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, 2009, were as follows:

Arlene Lear	President
Larry Crocker	Vice-President
Jerry Winfiel	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. A review of the signed statements noted no significant conflict disclosures.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended 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 \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$75,000.

The Company carries liability coverage for their directors and officers. Agents are required to purchase their own errors and omissions coverage.

The Company also carries general liability, office property and contents and workers compensation coverage.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four full-time employees. The employee benefits plan includes employer-subsidized medical, dental and life insurance, employer matching in 401(k) accounts, and paid time off.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and offers companion liability coverages through an organizational agreement with its reinsurer. The Company's policies are marketed by eighteen licensed agencies, who receive a 13% commission.

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

The Company utilizes Grinnell Mutual Reinsurance Company and custom policy forms. The policies are renewed annually. Initial property inspections are performed by the agent, and routine five-year inspections are performed by an in-house inspector. Adjusting is performed through an agreement with Grinnell Advisory Company, an affiliate of the Company's reinsurer. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2009	\$1,312,642	\$134,591	\$2,518,284	\$2,723,456	\$53,847	\$ 16,015	\$ 69,913
2008	1,649,791	547,954	2,576,687	4,317,258	26,188	331,741	477,438
2007	1,451,340	820,807	2,533,864	2,746,165	18,073	(206,802)	(188,555)
2006	1,733,071	916,897	2,702,929	3,075,610	11,994	(638,612)	(626,594)
2005	1,909,751	466,390	2,944,912	812,580	55,846	318,005	258,627

At year-end 2009, 3,792 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 2,944,912	\$ 2,702,929	\$ 2,533,864	\$ 2,576,687	\$2,518,284
Assumed	0	0	0	0	0
Ceded	(825,538)	(571,590)	(1,283,335)	(1,303,751)	(1,512,075)
Net	<u>\$ 2,119,374</u>	<u>\$ 2,131,339</u>	<u>\$ 1,250,529</u>	<u>\$ 1,272,936</u>	<u>\$ 1,006,209</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 the quota share section of the agreement which covers property risks, the Company cedes 80% of the premiums and losses per risk to the reinsurer. Coverage is limited to \$1 million per risk. The Company receives a ceding commission of 32.5% of net written premiums. Under the aggregate excess section of the agreement, which is for property risks, the Company's annual aggregate retention limit is calculated by multiplying the prior year premium written times the Company's quota share participation of 20%, with the result being multiplied the agreed-upon retention limit factor of 70%. The Company's retention limit for 2009 was \$378,853. The reinsurer is responsible for all losses in excess of the retention limit.



The Company markets liability coverage through an organizational agreement with the reinsurer. The Company receives a 20% commission on business written under the agreement.

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 Van de Ven, LLC performs an annual review of the Company's financial statements, compiles the Annual Statement and prepares the tax filings.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2009, 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, 2009**

Bonds	\$ 362,310
Stocks	318,333
Real Estate	36,488
Cash on Deposit	557,996
Reinsurance Recoverables	9,025
Computer Equipment	8,506
Interest Due and Accrued	6,717
Asset Write-Ins	13,267
	-----
Total Assets	\$ 1,312,642
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2009**

Ceded Reinsurance Payable	\$ 99,035
Liability Write-Ins	35,556
	-----
Total Liabilities	\$ 134,591
	-----
Guaranty Fund	\$ 100,000
Other Surplus	1,078,051
	-----
Total Surplus	1,178,051
	-----
Total Liabilities and Surplus	\$ 1,312,642
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2009**

Net Assessments Earned	\$ 273,776
Other Insurance Income	851,537
Net Losses & Loss Adjustment Expenses Incurred	(450,125)
Other Underwriting Expenses Incurred	(659,173)
	-----
Net Underwriting Income (Loss)	\$ 16,015
Investment Income	53,847
Other Income	51
	-----
Gross Profit (Loss)	\$ 69,913
Federal Income Tax	(0)
	-----
Net Income (Loss)	\$ 69,913
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2009**

Policyholders' Surplus, December 31, 2008	\$ 1,101,837
Net Income (Loss)	69,913
Market Adjustment on Stocks Held	6,301
	-----
Policyholders' Surplus, December 31, 2009	\$ 1,178,051
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

None.


## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Polk County Mutual 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.

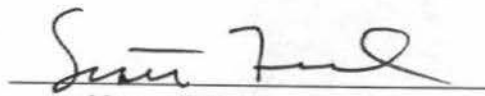
  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 10 day of May, 2011.

My commission expires:




DAVID SCOTT FORREST  
My Commission Expires  
August 27, 2013  
Boone County  
Commission #09545654

  
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.

  
Mark Nance, CFE, CPA  
Audit Manager - Kansas City  
Missouri DIFP