

**REPORT OF
FINANCIAL EXAMINATION**

**BARRY COUNTY MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2004**

**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	5
Corporate Records	5
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	6
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	6
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	7
REINSURANCE:	
General	7
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENTS:	
Analysis of Assets	10
Liabilities, Surplus and Other Funds	10
Statement of Income	11
Capital and Surplus Account	11
NOTES TO THE FINANCIAL STATEMENTS	12
EXAMINATION CHANGES	12
GENERAL COMMENTS AND/OR RECOMMENDATIONS	12
SUBSEQUENT EVENTS	12
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	13

July 8, 2005
Purdy, 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

BARRY COUNTY FARMERS 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 206 West Highway C (P.O. Box 383) Purdy, Missouri, telephone number (417) 442-3594. This examination began on July 7, 2005, and was concluded on July 8, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, 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, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Guaranty Fund

Comment: The Company was directed to include a guaranty fund balance in its Annual Statement.

Company Response: The Company currently reports a guaranty fund balance in the Annual Statement.

Current Findings: The Company currently reports a guaranty fund balance in the Annual Statement.

Employee Benefits

Comment: It was recommended the Company make provision in its financial statements for accrued vacation and sick leave.

Company Response: The Company will make the required provisions in future financial statements.

Current Findings: The Company appears to have made adequate provision for the liabilities in the financial statements during the period under examination.

Territory & Plan of Operation

Comment: It was recommended the Company revise its agent contracts to require the timely delivery of fully completed applications to the home office.

Company Response: The Company amended its agent contracts to meet the required provisions.

Current Findings: The Company's current agent contracts contain the recommended provisions.

HISTORY

General

The Company was originally organized and incorporated on April 15, 1904, as Barry County Farmers Mutual Fire and Lightning Insurance Company. The Company changed its name to Hickory County Farmers Mutual Insurance Company on March 19, 1980.

The Company has a Certificate of Authority dated July 6, 1994, 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 last Thursday 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 not permitted.

The management of the Company is vested in the Board of Directors, who is elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every two months, and the directors are compensated \$40 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Ronald D. Beaver Route 1 Box 1472 Golden, Missouri	Insurance Agent/Businessman	2004-2007

Doyle Bowman Route 2 Box 386B Purdy, Missouri	Retired	2004-2007
Robert Moser 402 Moser Street Purdy, Missouri	Mayor of Purdy	2004-2007
Charles F. Black Route 1 Box 1420 Seligman, Missouri	Retired	2002-2005
Theresa Day Route 1 Box 33 Fairview, Missouri	School Secretary	2002-2005
Francis Washick Route 2 Purdy, Missouri	Farmer	2003-2006
Francis Mathis Route 1 Box 1476 Cassville, Missouri	Retired	2003-2006
Allene Patterson Route 1 Box 1574 Washburn, Missouri	Bookkeeper/Tax Preparer	2003-2006

At December 31, 2005, a vacant position existed on the Board of Directors. On April 28, 2005, the following individual was appointed by the Board of Directors to fill the vacancy:

Vicki Burch Route 2 Box 93 Purdy, Missouri	Homemaker	2005-2008
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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, 2004, were as follows:

Ronald D. Beaver	President
Doyle Bowman	Vice-President
Allene Patterson	Secretary
Beverly Beaver	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 February 28, 2002, the Articles of Incorporation and Bylaws were amended to reflect the Company's change from an assessable to a non-assessable mutual.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. 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 liability coverage for its directors and officers with an aggregate limit of \$750,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible obtaining their own errors and omissions liability coverage, and no reimbursement is made by the Company.

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 three part-time employees. The Company provides the office secretary, the full time employee, with health insurance benefits, paid vacation and sick leave. The Company also contributes 8% of gross earnings of the office secretary and the Company Treasurer, a part-time employee, into individual retirement accounts on behalf of these employees. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

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 Insurance 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 four licensed producers, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS 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. Inspections and adjusting services are performed by the Company's President.

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>
2004	\$484,304	\$120,883	\$282,409	\$115,926	\$13,215	\$5,155	\$21,363
2003	450,600	108,544	243,475	54,971	17,614	(11,803)	8,363
2002	433,575	99,882	211,029	221,465	19,106	(40,394)	(17,939)
2001	482,401	130,768	196,678	125,062	26,091	(20,083)	8,282
2000	438,727	95,376	194,979	37,225	20,717	(3,561)	19,421

At year-end 2004, 519 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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$194,979	\$196,678	\$211,029	\$243,475	\$282,409
Assumed	0	0	0	0	0
Ceded	<u>(57,814)</u>	<u>(46,725)</u>	<u>(66,434)</u>	<u>(95,634)</u>	<u>(129,920)</u>
Net	<u>\$137,165</u>	<u>\$149,953</u>	<u>\$144,595</u>	<u>\$147,841</u>	<u>\$152,489</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Farmers Mutual Hail Insurance Company of Iowa (the reinsurer) under per risk and aggregate excess of loss agreements for property risks. Under the per risk agreement, the Company retains \$30,000 each risk, each loss occurrence and the reinsurer's limit

is 100% of \$70,000. The reinsurer's limit for an individual occurrence, regardless of the number of risks involved, is \$175,000. Individual risks ceded under the agreement are limited to \$100,000. Premium for 2004 under the per risk agreement is based on loss experience under the contract, with a minimum rate of 8% and a maximum rate of 25% of gross net written premium income.

The aggregate excess of loss agreement contains three layers of coverage. Under the first layer of coverage, the reinsurer assumes liability for 100% of losses exceeding 80% of the Company's gross net written premium income for the year, limited to 55% of the Company's gross net written premium for the year. Under the second layer of coverage, the reinsurer assumes liability for 100% of losses exceeding 135% of the Company's gross net written premium income for the year, limited to 110% of the Company's gross net written premium for the year. Under the third layer of coverage, the reinsurer assumes liability for 100% of losses exceeding 245% of the Company's gross net written premium income for the year, limited to the lesser of 835% of the Company's gross net written premium for the year or \$1,916,325. Premium for the aggregate reinsurance coverage in 2004, as a percentage of gross net written premium, equaled 14.0% for the first layer, 5.0% for the second layer and 4.0% for the third layer.

The Company has a pro rata facultative reinsurance agreement with the reinsurer for property risks that exceed the individual risk limits outlined in the excess of loss agreements. Rates are equal to the rates charged by the Company, and the Company receives a 20% ceding commission.

The Company also has a quota share reinsurance agreement for casualty risks. The Company cedes 100% of the casualty risks and premium to the reinsurer and receives an 18% 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. An annual review of the Company's financial statements is performed by The CPA Group, Monett, Missouri, who also prepares the Company's Annual Statement and tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, 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, 2004

Bonds	\$ 247,737
Real Estate	11,883
Cash on Deposit	205,725
Other Investments	6,209
Premium Uncollected	8,650
Computer Equipment	2,132
Interest Due and Accrued	139
Asset Write-Ins	1,828

Total Assets	\$ 484,303
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Losses Unpaid	\$ 6,000
Unearned Premium	110,537
Liability Write-ins	4,346

Total Liabilities	\$ 120,883

Guaranty Fund	\$ 150,000
Other Surplus	213,419

Total Surplus	\$ 363,419

Total Liabilities and Surplus	\$ 484,303
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STATEMENT OF INCOME
December 31, 2004

Net Premium	\$ 141,718
Reinsurance Commission	7,472
Net Losses Incurred	(36,659)
Other Underwriting Expenses	(107,376)

Net Underwriting Income (Loss)	\$ 5,155

Investment Income	\$ 13,215
Other Income	2,993

Gross Income (Loss)	\$ 21,363
Federal Income Tax	(0)

Net Income (Loss)	\$ 21,363
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	\$ 342,057
Net Income (Loss)	21,363

Policyholders' Surplus, December 31, 2004	\$ 363,419
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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

None.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Barry 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 Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

May 1, 2008

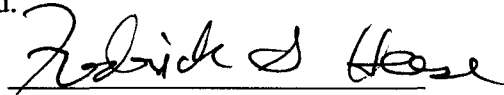


Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION

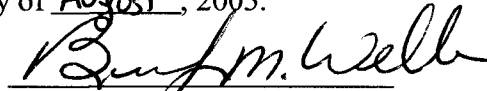
The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



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

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires: 03-17-2008


Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008