



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

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

RE: Examination Report of Barton Mutual Insurance Company for the period ended  
December 31, 2013

**ORDER**

After full consideration and review of the report of the financial examination of Barton Mutual Insurance Company for the period ended December 31, 2013, 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 Barton 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 2<sup>nd</sup> day of July, 2015.



A handwritten signature in black ink, reading "John M. Huff", written over a horizontal line.

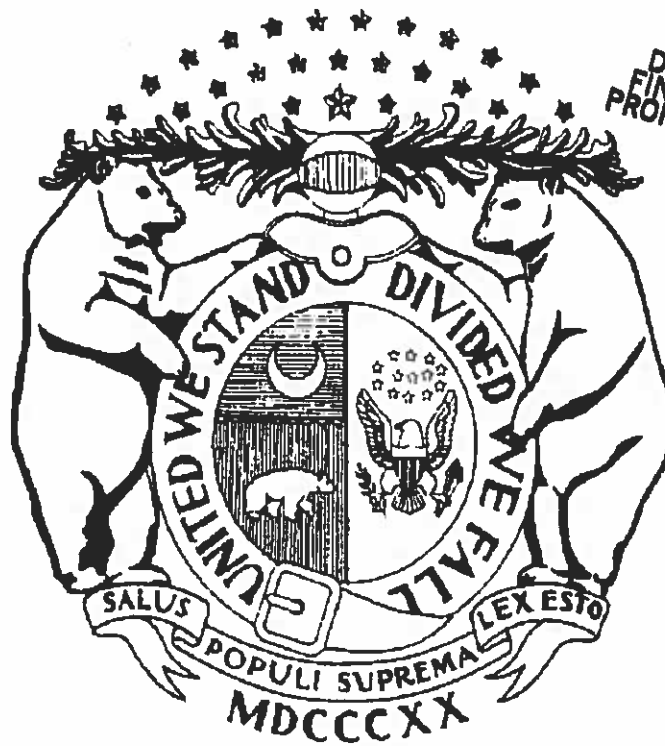
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



**REPORT OF THE  
FINANCIAL EXAMINATION OF  
BARTON MUTUAL INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2013**



**FILED**  
JUL 2 2015  
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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May 1, 2015  
Liberal, 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 financial examination warrant, a full-scope financial examination has been made of the records, affairs and financial condition of

### **BARTON MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as "Barton Mutual" or the "Company". The Company's administrative office is located at 120 South Main Street, Liberal, Missouri 64762, telephone number (417)-843-6265. This examination began on October 22, 2014, and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2007, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2008, through December 31, 2013, 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, 2007, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

## **Reinsurance**

*Comment:* The terms of future reinsurance agreements should be written so that the Company's retentions and the limits of coverage provided by the reinsurers are clearly specified.

*Company Response:* The Company's reinsurance program has been changed to clearly reflect the Company's retentions and reinsurer coverage limits.

*Current Findings:* The Company's current reinsurance program clearly states the Company's retentions and reinsurer coverage limits.

## **HISTORY**

### **General**

The Company was originally incorporated on March 19, 1894, as Farmers Mutual Fire Insurance Company of Barton County, Missouri. On March 1, 1969, the Company changed its name to Barton County Mutual Insurance Company. On February 17, 2001, the Company changed its name to Barton Mutual Insurance Company. Effective January 1, 2012, the Company merged with two Missouri mutual companies, Cape Mutual Insurance Company (Cape) and Gateway Mutual Insurance Company (Gateway), with Barton Mutual being the surviving entity.

The Company has a Certificate of Authority dated July 9, 2001, 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 and Control**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Thursday in March, at the home office of the Company or at such other place and time as may be designated. 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 constitute a quorum. Proxy voting is permitted.

The Company's Articles of Incorporation state that the management of the Company is to be vested in a Board of Directors consisting of seven members, who are elected from the general membership and serve staggered, three-year terms. As of December 31, 2013, the Board of Directors consisted of only six members. However, a seventh member was appointed in April 2015. The Board of Directors meets at least quarterly and additionally on an as-needed basis. Directors receive an annual retainer of \$1,000 and are compensated \$100 to \$350 per meeting attended, depending upon the type of meeting held.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Carl E. Arft Lamar, Missouri	Retired	2016
Vern Hutchison Vienna, Missouri	Insurance Agent/ Bail Bondsman	2016
P. Kevin DeVoy Brookfield, Missouri	Insurance Agent	2014
David P. Bub St. Louis, Missouri	Attorney	2014
Jason Powers Lenexa, Kansas	Insurance Agent	2015
Dennis Wilson, Chairman Liberal, Missouri	Farmer/County Commissioner	2014

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, 2013, were as follows:

Sally Fast	President
Linda S. McKay	Secretary
Jacqui D. Nichols	Treasurer
Brian K. King	Vice-President
Dorothy L. Spivey	Vice-President

### **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. It was disclosed as potential conflicts of interest in the statements that two of the six directors are also agents of the Company.

### **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' meeting were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect the corporate transactions and events.

**Surplus Notes**

On February 22, 2012, the Company issued a surplus note to Missouri Farm Bureau Town & Country Insurance Company of Missouri with a principal balance of \$17,724,035 and a maturity date of July 1, 2021. The stated interest rate is one percentage point above the prime rate, and interest payments are due on January 1<sup>st</sup> and July 1<sup>st</sup> of each year. All principal and interest payments must be approved by the Director of the DIFP prior to payment.

Interest payments on the surplus note approved by the DIFP and paid by the Company during the examination period were as follows:

<u>Date Paid</u>	<u>Amount</u>
December 27, 2012	\$188,318
March 28, 2013	376,636
June 27, 2013	376,636
December 26, 2013	376,636

**FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$250,000 with a deductible of \$50,000. The fidelity bond coverage of the Company did not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$300,000 in coverage.

The Company carries liability coverage for its directors and officers and requires its agents to purchase their own errors and omission coverage. Other insurance coverages carried by the Company include property, general liability, commercial umbrella, automobile and workers compensation.

**EMPLOYEE BENEFITS**

The Company has forty-five regular full-time employees. Employee benefits offered by the Company include life, health and short-term disability insurance, health savings or flexible spending accounts, matching contributions to retirement accounts, and paid time off.

## 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. The Company is authorized to write fire, wind, liability and other insurance lines in all counties in the State of Missouri. The Company is currently writing only fire wind and liability coverages. The Company's policies are sold through 1,567 licensed agents, who receive a 12% commission on both new and renewal business.

### Policy Forms and Underwriting Practices

The Company utilizes AAIS and custom policy forms. The policies are written on a one-year term. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Property inspections are performed by Company employees. Adjusting is performed by a mixture of staff adjusters, in-house adjusters and independent adjusters based on claims manager determination.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	2008	2009	2010	2011	2012	2013
Admitted Assets	\$19,535,912	\$17,902,103	\$20,043,717	\$ 3,622,487	\$15,702,899	\$24,159,528
Liabilities	11,545,891	11,375,748	15,014,172	19,370,944	9,136,626	15,769,002
Gross Premiums	23,978,115	21,441,759	23,893,073	25,686,415	17,091,628	24,771,193
Gross Losses Incurred	16,299,831	17,634,606	13,020,305	57,014,456	14,896,425	9,277,507
Investment Income	693,839	512,227	470,651	353,726	(483,435)	(629,811)
Underwriting Income	(1,103,508)	(2,004,390)	(2,034,111)	(21,147,860)	5,096,487	2,766,081
Net Income	(409,669)	(1,492,163)	(1,511,745)	(20,784,337)	4,786,636	2,119,376

At year-end 2013, 24,267 policies were in force. The significant gross incurred losses and resulting negative underwriting and net income, as well as the significant erosion of the asset base in 2011 were the result of losses incurred in the May 22, 2011, Joplin, Missouri tornado event. The significant rebound in admitted assets in 2012 is due to assets received in exchange for a surplus note issued by the Company (see the "Surplus Notes" section of this report). Negative investment income reported in 2013 and 2012 is the result of surplus note interest paid in those years.

As indicated above, the Company has experienced positive operating results for the years subsequent to the Joplin tornado. However, it was noted that the Company has not developed a comprehensive strategic business plan beyond what it prepares in its annual budgeting process.



## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2013	2012	2011	2010	2009	2008
Direct	\$24,771,193	\$17,091,628	\$25,686,415	\$23,893,073	\$21,441,759	\$20,475,378
Assumed	0	0	1,695,181	3,376,403	3,120,523	3,502,737
Ceded	16,076,263	27,318,808	9,456,421	10,675,953	9,408,391	9,675,953
Net	\$ 8,694,930	\$(10,227,180)	\$17,925,175	\$16,593,523	\$15,153,891	\$14,302,162

### Assumed

Prior to 2012, the Company assumed business through reinsurance agreements with two affiliated companies, Cape Mutual Insurance Company and Gateway Mutual Insurance Company, as well as through a pooling arrangement with two other non-affiliated Missouri mutual companies. These agreements were all terminated in 2011.

### Ceded

The Company's business is reinsured with Farm Bureau New Horizons Insurance Company of Missouri (the reinsurer). The Company cedes a 100% quota share of the premium and liability on its property and casualty business to the reinsurer. The reinsurer's liability is limited to \$3 million for any one casualty claim and \$3.5 million on any one property loss. The reinsurer's liability is also limited to \$50 million in losses for any earthquake occurrence and \$100 million in combined aggregate losses during the annual contract period. Barton receives a 22% provisional ceding commission and is eligible for higher adjusted ceding commission rates if certain loss ratio levels are achieved.

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 utilizes MSIC software for policy production, claims, billing and general ledger. All documents are imported through ImageRight imaging system software and processed through IR workflow. Servers are housed in a vault onsite and redundant servers and back-ups are kept off-site.

The CPA firm of Van De Ven, LLC compiles the Company's financial statements and prepares the Annual Statement and tax filings. The Company was required to file monthly financial statements in 2013. The CPA firm of Brown, Smith, Wallace, LLC performed a balance sheet audit of the Company for the year-ending December 31, 2013.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2013, 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.

**ASSETS**  
**December 31, 2013**

Bonds	\$ 8,454,652
Stocks	3,756
Real Estate	237,302
Cash on Deposit	1,727,295
Premium/Assessments/Agent's Balances Receivable	140,191
Reinsurance Recoverable on Paid Losses	167,407
Computer Equipment	3,549
Interest Due & Accrued	28,688
Field Automobiles	128,118
Subrogation Estimates	29,889
Prepaid Expenses	83,884
Funds Held by Reinsurer	13,102,130
Other Assets	52,667
	<hr/>
Total Assets	<u>\$ 24,159,528</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2013**

Net Losses Unpaid	\$ 1,436,171
Net Loss Adjustment Expense Unpaid	1,134,998
Ceded Reinsurance Premium Payable	1,504,382
Unearned Premium	8,377,668
Federal Income Tax Payable	33,607
Payroll Tax Payable	7,306
Commission Payable	114,160
Accounts Payable-Other	227,420
Premium Tax Payable	70,807
Prepaid Policy Deposits	675,831
Accrued & Deferred Expenses	343,565
Ceded Reinsurance Commission Payable	<u>1,843,087</u>
 Total Liabilities	 <u>\$ 15,769,002</u>
 Guaranty Fund	 \$ 150,000
Surplus Note	17,724,035
Other Surplus	<u>(9,483,509)</u>
 Total Surplus	 <u>8,390,526</u>
 Total Liabilities and Surplus	 <u>\$ 24,159,528</u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2013**

Net Premiums Earned	\$ 317,262
Other Insurance Income	10,045,776
Net Losses & Loss Adjustment Expenses Incurred	(434,857)
Other Underwriting Expenses Incurred	<u>(7,162,100)</u>
 Net Underwriting Income (Loss)	 \$ 2,766,081
Investment Income	(629,811)
Other Income	<u>16,713</u>
 Gross Profit (Loss)	 \$ 2,152,983
Federal Income Tax	<u>(33,607)</u>
 Net Income (Loss)	 <u>\$ 2,119,376</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2013**

Policyholders' Surplus, December 31, 2012	\$ 6,566,273
Net Income (Loss)	2,119,376
Non-Admitted Investment	(203,095)
Prior Year Federal Income Tax	<u>(92,028)</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$ 8,390,526</u>



## NOTES TO THE FINANCIAL STATEMENTS

None.

## EXAMINATION CHANGES

None.

## SUMMARY OF RECOMMENDATIONS

### **Fidelity Bond and Other Insurance (Page 5)**

It is recommended the Company increase the limit of liability on its fidelity bond coverage to a minimum of \$300,000.

### **Strategic Planning (Page 5)**

The Company should develop a comprehensive Strategic Business Plan which includes projections covering at least a five year period.

## SUBSEQUENT EVENTS

In addition to ordinary interest payments, the Company made two principal payments on its surplus note subsequent to December 31, 2013. Principal payments approved by the DIFP and paid by the Company consisted of \$2,000,000 on July 11, 2014 and \$1,224,035 on September 26, 2014.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Barton Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri            )  
  )  
County of Cole             )

I, Jay Buschmann 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.

J. Buschmann  
Jay Buschmann, AFE  
Financial Examiner/Analyst  
Missouri DIFP

Sworn to and subscribed before me this 1<sup>st</sup> day of June, 2015.

My commission expires:

01/07/2015

Tammy Morales  
Notary Public



TAMMY MORALES  
My Commission Expires  
January 7, 2018  
Clay County  
Commission #14451086

**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  
Mark Nance, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP



**BARTON MUTUAL**  
INSURANCE COMPANY

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July 1, 2015

Leslie Nehring, CFE, CPA  
Department of Insurance, Financial Institutions  
And Professional Registration  
PO Box 690  
Jefferson City, MO 65102-0690

RE: Barton Mutual Insurance Exam  
Period ending December 31, 2013

Dear Ms. Nehring,

This is a response to the Examination Report of Barton Mutual Insurance Company for the period ending December 31, 2013. In regard to the General Comments and Recommendations, I offer this response:

Fidelity Bond and Other Insurance (page 5)

It is recommended the Company increase the limit of liability on its fidelity bond coverage to a minimum of \$300,000.

Effective April 30, 2015, we increased our Fidelity Bond to a limit of \$350,000. Please find included the endorsement reflecting this increase.

Strategic Planning (Page5)

It is recommended that the Company complete a Strategic Plan looking out a minimum of five years.

We have commenced work toward a Long Range Strategic Plan with an expected completion date within 90 days. This will be forwarded to you upon completion.

On behalf of our Treasurer, Jacqui Nichols and myself, I would like to express our gratitude for the professionalism shown us during this process.

Sincerely,

Sally S Fast, President  
Barton Mutual Insurance Company