



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

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

RE: Examination Report of Gasconade Farmers Mutual Fire Insurance Company for the period ended December 31, 2016

ORDER

After full consideration and review of the report of the financial examination of Gasconade Farmers Mutual Fire Insurance Company for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Gasconade Farmers Mutual Fire 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) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) 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 17th day of September, 2018.



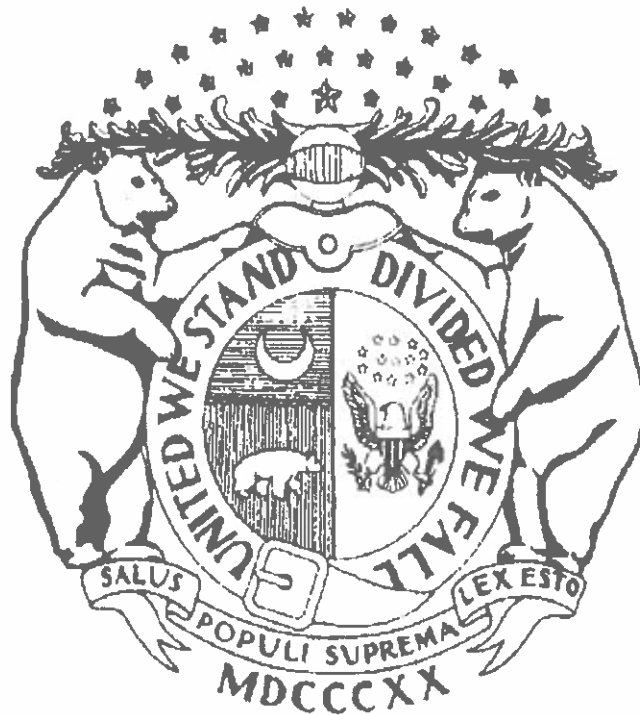
Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF**

Gasconade Farmers Mutual Fire Insurance Company

**AS OF
DECEMBER 31, 2016**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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May 17, 2018
Hermann, Missouri

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

Gasconade Farmers Mutual Fire Insurance Company

hereinafter referred to as such, or as the "Company." The Company's home office and principal place of business is located at 200 East First Street, Hermann, Missouri 65041; telephone number (573)486-3137. This examination began February 15, 2018, and fieldwork concluded on the date above, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2011 and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2012 through December 31, 2016, and was conducted by an examiner 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 by 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

It was recommended that the Company obtain conflict of interest statements from all officers and directors annually. It was also recommended that the Company prepare its annual statement on an accrual basis.

HISTORY

General

The Company was originally organized in August of 1886, as Boulware Farmers Aid Association and was incorporated in 1905 as the Gasconade Farmers Mutual Fire Insurance Company. The Company has a Certificate of Authority dated June 18, 1997, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies).

Management

The Company is managed by a board of five directors; serving staggered, three-year terms. Directors are elected at annual member meetings held on the first Thursday of every March. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The board meets quarterly. Directors receive \$100 per meeting. All directors are also policyholders. Only four Directors were shown on the Annual Statement as of December 31, 2016. This appears to have been an oversight as the Annual Membership Meeting minutes confirm there were 5 directors at the time.

The Board consisted of the following members as of December 31, 2016:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Hoyt C. Stemme Hermann, MO	Insurance Agent	2013-2016
Michael D. Sloan Hermann, MO	Restaurant Owner/Operator	2013-2016
Linda A. Stemme Hermann, MO	Insurance Agent/Real Estate Sales Associate	2015-2018
Olan W. Stemme Hermann, MO	Insurance Agent/Real Estate Broker	2016-2019
Marietta Melvin Hermann, MO	Retired	2015-2018

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, 2016 were as follows:

Hoyt C. Stemme	President
Michael D. Sloan	Vice President
Olan W. Stemme	Secretary/Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its March 7, 2013 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$25,000 from Western Surety Company. This coverage meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of \$500,000.

The independent agency used by the Company, Heritage Agency-Real Estate and Insurance, LLC carries Errors and Omissions Liability insurance through MAMIC Mutual Insurance Company with a limit of liability of \$1 million. Heritage Agency-Real Estate and Insurance, LLC purchases the coverage.

EMPLOYEE BENEFITS

The Company currently has three part-time employees. Employees receive vacation, holidays, health insurance and participate in a simple IRA retirement plan with Company match.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated June 18, 1997 and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Gasconade and surrounding counties. Insurance is provided on an assessable basis. Advertising consists primarily of participation in scholarship programs, 4H and FFA, and University programs.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms and writes both continuous policies and policies renewed on a three-year term. Inspections are performed primarily by the agents upon policy issuance and every three years thereafter. Claims are adjusted primarily by outside adjusters. The Company's policies are marketed by an independent insurance agency, Heritage Agency, LLC. The commission rates are 15% for new policies, 12% on renewals and 10% on liabilities policies (both new and renewal).

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

The following exhibit summarizes the operating results of the Company over the last five years. These numbers were taken from the Annual Statements as filed with DIFP.

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2016	\$ 1,414,642	\$ 3,642	\$ 454,193	\$ 84,142	\$ 44,838	\$ (25,313)	\$ 19,525
2015	1,411,740	3,801	464,919	68,007	41,718	35,194	80,038
2014	1,348,514	16,536	475,884	120,981	47,085	(17,025)	30,439
2013	1,294,811	1,420	472,305	165,878	38,747	80,213	130,658
2012	1,201,111	33,849	475,510	125,219	38,114	(2,837)	37,764

At year-end 2016, there were 761 policies 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct	\$464,772	\$461,848	\$458,575	\$448,704	\$437,076
Assumed	10,738	10,457	17,309	16,215	17,117
Ceded	(177,290)	(131,795)	(147,788)	(142,444)	(138,668)
Net	<u>\$298,220</u>	<u>\$340,510</u>	<u>\$328,096</u>	<u>\$322,475</u>	<u>\$315,531</u>

Assumed

The Company participates in the MAMIC Mutual Insurance Company D/O and E/O reinsurance pool. An immaterial amount of assumed premiums and losses is reported due to the Company's participation in this pool.

Ceded

All business reinsured is ceded to Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for fire, wind and liability risks. The per-risk excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company retains \$50,000 per risk under the first layer and \$200,000 per risk under the second layer. The reinsurer's limits are \$150,000 under the first layer and \$400,000 under the second layer. The premium is 7% and 3.5% of net written premium for layers one and two, respectively.

The catastrophe excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company's aggregate net retention, or attachment point, for the first layer is equal to 75% of net written premium. The reinsurer has a limit of liability equal to 50% of net written premium. The attachment point for the second layer is equal to 200% of net written premiums. The reinsurer is liable for 100% of losses in excess of the attachment point with no limit of liability. The premium for the aggregate coverage is 7.0% and 2.5% of net written premium for layers one and two, respectively.

The contract also has a quota share section for liability risks. The Company cedes 100% of premiums and all liability risks and premium to the reinsurer and receives a 25% ceding commission.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. Policyholder information is maintained on a custom designed database using "Nutshell" and "Sage Accounting" software. The Company prepares the financial statements and Annual Statements. Thomas J. Metcalf, CPA prepares the Company's tax returns.

FINANCIAL STATEMENTS

The following financial statements as filed with DIFP, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2016, 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

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, 2016

Bonds	\$	874,838
Mutual Funds		277,645
Cash on Deposit		5,452
Other Investments		238,926
Interest Due and Accrued		7,739
Reinsurance Paid Receivable		10,042

Total Assets	\$	1,414,642
		=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2016

Accounts Payable to Agents	\$	1,565
Accounts Payable (Other)		2,077

Total Liabilities	\$	3,642

Guaranty Fund	\$	150,000
Other Surplus		1,261,000

Total Surplus		1,411,000

Total Liabilities and Surplus	\$	1,414,642
		=====

STATEMENT OF INCOME
For the Year Ending December 31, 2016

Net Premiums Earned	\$ 315,531
Other Insurance Income	23,460
Net Losses & Loss Adjustment Expenses Incurred	(94,826)
Other Underwriting Expenses Incurred	(269,478)

Net Underwriting Income (Loss)	\$ (25,313)

Net Investment Income	\$ 44,838
Other Income	0

Gross Profit (Loss)	\$ 19,525
Federal Income Tax	0

Net Income (Loss)	\$ 19,525
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2016

Policyholders' Surplus, December 31, 2015	\$ 1,407,939
Net Income (Loss)	19,525
Bond/Mutual Fund Market Adjustments	(16,464)

Policyholders' Surplus, December 31, 2016	\$ 1,411,000
	=====

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

The company is party to a General Expense Agreement with their agent, Heritage Agency Real Estate and Insurance, LLC. Pursuant to the Agreement the Company and the agency are each responsible for 50% of certain expenses as outlined in the agreement. It is recommended that the Company implement procedures to document expenses paid by each party under this agreement.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

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

VERIFICATION

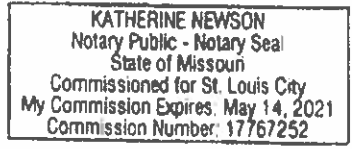
State of Missouri)
) ss
County of Cole)

I, Michael C. Behrens 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.


Michael C. Behrens, CFE
Financial Examiner Analyst
DIFP

Sworn to and subscribed before me this 17th day of May, 2018.

My commission expires:
May 14, 2021






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.


Michael Shadowens, CFE
Audit Manager-St. Louis
DIFP