



DEPARTMENT OF COMMERCE & INSURANCE

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

ORDER

After full consideration and review of the report of the financial examination of Osage County Farmers Mutual Aid Association for the period ended December 31, 2017, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance¹ 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 Osage County Farmers Mutual Aid Association 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 30th day of August, 2019.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance

¹ Pursuant to Executive Order #19-02, effective August 28, 2019, the department name was changed from the Department of Insurance, Financial Institutions and Professional Registration to the Department of Commerce and Insurance.

REPORT OF THE
FINANCIAL EXAMINATION OF
OSAGE COUNTY FARMERS MUTUAL AID
ASSOCIATION

AS OF
DECEMBER 31, 2017



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 26, 2019
Koeltztown, 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

OSAGE COUNTY FARMERS MUTUAL AID ASSOCIATION

hereinafter referred to as such, or as the Company. The Company's administrative office is located at 2418 County Road 521, Koeltztown, Missouri 65048, telephone number (573) 728-6528. This examination began on March 13, 2019, and was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2012, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2013, through December 31, 2017, and was conducted by examiners from the 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.

HISTORY

General

The Company was originally organized and incorporated in January 1890, as Farmers Mutual Aid Association of Crawford and Adjoining Townships. The Company currently operates as Osage County Farmers Mutual Aid Association.

The Company has a Certificate of Authority dated July 1, 1991, 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 second Monday in September, 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 are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately twelve to fifteen times per year, and each director is compensated \$80 per meeting attended.

Members serving on the Board of Directors as of December 31, 2017, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Larry Sestak Koeltztown, Missouri	Farmer	2020
Russell Scheulen Loose Creek, Missouri	Golf Course Manager/Farmer	2020
Bernard Berhorst Freeburg, Missouri	Farmer	2018
Marlon Stuecken Freeburg, Missouri	Shipping Supervisor/Farmer	2019
Patrick Haller Freeburg, Missouri	Retired/Farmer	2019
Sharon Miller Meta, Missouri	State Employee	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, 2017, were as follows:

Larry Sestak	President
Bernard Berhorst	Vice-President
Marlon Stuecken	Secretary
Patrick Haller	Treasurer

Conflict of Interest

The Company completes annual conflict of interest statements 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 completed statements noted no material conflicts disclosed.

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 \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$25,000.

The Company carries liability coverage for its directors and officers, as well as errors and omissions coverage for its agents.

EMPLOYEE BENEFITS

All operations of the Company are performed by its directors. Other than wages, no additional benefits are provided by the Company.

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 writes fire, wind, and liability coverages. The Company's policies are sold by three licensed agents, who receive \$50 for each new policy written. There is no compensation to the agent when the policy is renewed.

Policy Forms and Underwriting Practices

The Company utilizes Missouri Association of Mutual Insurance Companies (MAMIC) and Cameron Mutual Insurance Company forms. Policies are renewed annually, with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by the directors and agents.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2017	\$1,601,275	\$(7,193)	\$395,137	\$540,376	\$8,193	\$(37,538)	\$(29,345)
2016	1,638,533	5,000	299,280	136,151	8,008	(19,495)	(11,487)
2015	1,645,020	42,192	381,734	165,691	7,916	63,810	71,726
2014	1,532,904	35,000	372,015	155,446	7,647	88,021	95,668
2013	1,484,301	0	350,289	229,542	8,965	72,356	81,321

At year-end 2017, 782 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:

	2013	2014	2015	2016	2017
Direct	\$350,289	\$372,015	\$381,734	\$299,280	\$395,137
Assumed	0	0	0	0	0
Ceded	(124,236)	(138,160)	(140,909)	(170,266)	(147,617)
Net	\$226,053	\$233,855	\$240,825	\$129,014	\$247,520

Assumed

The Company does not reinsure other companies.

Ceded

The Company's property reinsurance program is placed by broker Guy Carpenter & Company, LLC with various reinsurers (the reinsurer) under property per risk, catastrophe, and aggregate excess contracts. The lead reinsurer under the program is Swiss Reinsurance America Corporation, with 20% share in the interest and liabilities of the contracts.

Under the per risk excess of loss agreement, the Company retains \$45,000 for each loss, each risk, and the reinsurer's limits are \$500,000 per risk and \$1,000,000 per occurrence.

The catastrophe excess of loss agreement has two layers. Under layer one, the reinsurer is liable for 95% of \$1 million per loss occurrence in excess of a \$90,000 Company retention. Under layer two, the reinsurer is liable for an additional \$2 million per occurrence in excess of the layer one Company retention and reinsurer limits.

Under the aggregate excess of loss agreement, the Company's annual aggregate net retention, or attachment point, is equal to 90% of the Company's gross net earned premium income. The reinsurer is liable for 100% of losses in excess of this retention.

The Company's casualty business is ceded under a quota share arrangement with Cameron Mutual Insurance Company (CMIC). The Company cedes 100% of casualty premiums and losses to CMIC and receives a 22% 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 a cash basis. The Company utilizes a combination of paper files and packaged software systems for policy maintenance.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2017, 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, 2017

Cash on Deposit	\$ 1,592,885
Reinsurance Recoverable on Paid Losses	<u>8,390</u>
Total Assets	<u>\$ 1,601,275</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2017

Net Losses Unpaid	\$ (2,812)
Net Loss Adjusting Expenses Unpaid	<u>(5,101)</u>
Total Liabilities	<u>\$ (7,913)</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>1,459,188</u>
Total Surplus	<u>\$ 1,609,188</u>
Total Liabilities and Surplus	<u>\$ 1,601,275</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2017

Net Premiums Earned	\$ 247,520
Net Losses & Loss Adjustment Expenses Incurred	(251,477)
Other Underwriting Expenses Incurred	<u>(33,581)</u>
Net Underwriting Income (Loss)	\$ (37,538)
Net Investment Income	<u>8,193</u>
Gross Profit (Loss)	\$ (29,345)
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u><u>\$ (29,345)</u></u>

RECONCILIATION OF SURPLUS
Changes from January 1, 2013 to December 31, 2017
(000's omitted)

	2013	2014	2015	2016	2017
Capital and Surplus, Beginning of Year	\$ 1,408	\$ 1,484	\$ 1,498	\$ 1,603	\$ 1,633
Examination Adjustment – Correction to Beginning Surplus (Note 1)	(5)	(82)	33	42	5
Net Income (Loss)	<u>81</u>	<u>96</u>	<u>72</u>	<u>(12)</u>	<u>(29)</u>
Capital and Surplus, End of Year	<u>\$ 1,490</u>	<u>\$ 1,498</u>	<u>\$ 1,603</u>	<u>\$ 1,633</u>	<u>\$ 1,609</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Examination Adjustment – Correction to Beginning Surplus (Page 8)

An examination adjustment to beginning policyholders' surplus was required for each year of the examination period. The issue was due to the Company reporting prior year Schedule N cash balance as the beginning surplus on line 14 of page 5 of the annual statement instead of the prior year ending surplus. The Annual Statement Instructions for Missouri Mutual Insurance Companies requires current year's beginning policyholder's surplus to equal the prior year's ending policyholders' surplus.

EXAMINATION CHANGES

The adjustment in Note 1 resulted in no change to ending policyholders' surplus.

SUMMARY OF RECOMMENDATIONS

Notes to the Financial Statements (Page 9)

It is recommended the Company ensure current year's beginning policyholders' surplus agrees to the prior year's ending policyholders' surplus.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the directors of Osage County Farmers Mutual Aid Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

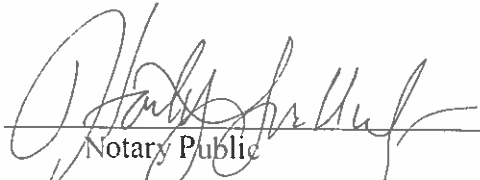
I, Brian Hammann, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony 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.



Brian Hammann, CPA
Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 6th day of August, 2019.

My commission expires:
March 30, 2023



Notary Public



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634366

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.

A handwritten signature in black ink, appearing to read 'Shannon Schmoeger', is written over a horizontal line.

Shannon Schmoeger, CFE, ARe
Chief Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration