



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

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

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

**ORDER**

After full consideration and review of the report of the financial examination of Buchanan County 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.

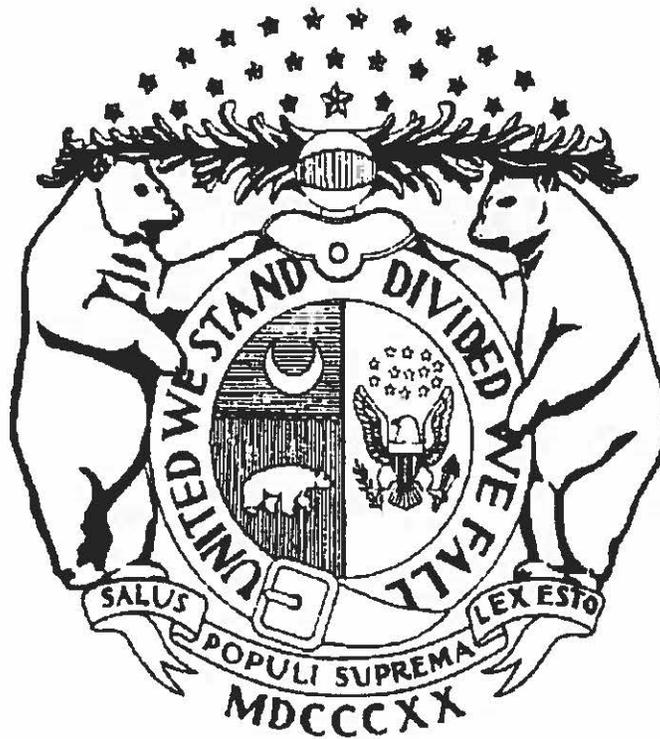
Based on such findings and conclusions, I hereby ORDER Buchanan County Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement, and verify compliance with, 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 29<sup>th</sup> day of June, 2015.



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

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
BUCHANAN COUNTY MUTUAL  
INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013**



**STATE OF MISSOURI**

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

**JEFFERSON CITY, MISSOURI**

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February 6, 2015  
St. Joseph, 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

**BUCHANAN COUNTY MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1004 South Belt Highway, St. Joseph, Missouri 64507, telephone number (816) 232-0933. This examination began on February 2, 2015, 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, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Corporate Records**

*Comment:* It was recommended the Board of Directors put the company's procedures in writing, and maintain an up-to-date manual to be made available to Company management and personnel.

*Company Response:* The Company agreed to prepare a procedures manual as recommended.

*Current Findings:* The Company drafted and approved a procedures manual that was provided to the DIFP.

### **Reinsurance**

*Comment:* It was recommended the Company review its reinsurance program and take the necessary actions to maintain compliance with 20 CSR 200-12.030 (Extended Missouri and Missouri Mutual Companies' Financial Reinsurance Requirements).

*Company Response:* The Company agreed to review the reinsurance agreement and address the issue to maintain compliance.

*Current Findings:* The Company was found to be in compliance with the reinsurance requirements of 20 CSR 200-12.030 as of December 31, 2013.

## **HISTORY**

### **General**

The Company was originally organized and incorporated on November 18, 1902, as the Farmers Mutual Fire and Lightning Insurance Company of Buchanan County, Missouri. In 1985, the Company changed its name to Buchanan County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is dated July 1, 1991, and is renewed annually.

## Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in February at the home office of the Company or at such other place and time 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 ten percent of the members. Eight members constitute a quorum. 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each director receives \$50 per meeting attended.

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</u>
James Whitson St. Joseph, Missouri	Insurance Agent/Farmer	2013-2016
Donald Jordan St. Joseph, Missouri	Insurance Agent/Farmer	2012-2015
Charles Spencer Faucett, Missouri	Insurance Agent/Farmer	2013-2016
Leroy Clark Easton, Missouri	Insurance Agent/Farmer	2012-2015
Don Matthews Rushville, Missouri	Retired Insurance Agent	2013-2016
Regina Tingler St. Joseph, Missouri	Insurance Agent	2011-2014
Deanne Lofts St. Joseph, Missouri	Insurance Agent	2011-2014
Rodney Fry Dekalb, Missouri	Farm Implement Salesperson	2012-2015
Dean Kerns St. Joseph, Missouri	Retired Stock Broker	2011-2014

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:

James Whitson	President
Regina Tingler	First Vice-President
Charles Spencer	Second Vice-President
Gaye Black	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 conflict of interest 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 \$75,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and requires its agents to purchase errors and omissions insurance coverage at their own expense. The Company carries property coverage on its home office and contents, as well as general liability insurance and workers compensation coverage.

## EMPLOYEE BENEFITS

The Company only has one full-time employee and two part-time employees. Benefits provided to the full-time employee include health, dental, life and disability insurance, paid time off, and matching contributions to an SEP retirement plan. The Company also provides disability coverage for the part-time employees.

## 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. 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 ten licensed agencies, who receive a 12% commission. Six of the Company's agents also serve on the Board of Directors.

### Policy Forms and Underwriting Practices

The Company uses Grinnell Mutual Reinsurance Company policy forms. The policies are continuous and renewed annually. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company's contracted inspector/adjustor.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<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>
2013	\$3,739,211	\$ 1,334,169	\$2,614,613	\$ 955,228	\$47,918	\$ 765,690	\$ 925,757
2012	3,085,302	1,606,017	2,708,645	1,055,934	54,419	224,282	282,261
2011	2,457,742	1,260,718	2,666,913	2,333,410	46,886	(55,020)	(7,557)
2010	2,379,998	1,175,417	2,405,192	2,215,146	70,084	(395,861)	(325,655)
2009	2,703,595	1,173,359	2,415,043	1,589,397	66,944	(110,351)	(43,336)

At year-end 2013, 2,905 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	2012	2011	2010	2009
Direct	\$ 2,614,613	\$ 2,708,645	\$ 2,666,913	\$ 2,405,192	\$ 2,415,043
Assumed	0	0	0	0	0
Ceded	(872,059)	(868,634)	(778,159)	(835,398)	(684,954)
Net	\$ 1,742,554	\$ 1,840,011	\$ 1,888,754	\$ 1,569,794	\$ 1,730,089

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks.

Under the individual occurrence of loss excess section of the agreement, the Company retains \$200,000 for each loss occurrence. The reinsurer's limits are \$2 million per exposure for farm machinery and equipment storage buildings and \$1 million per exposure for all other risks.

Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2013 was \$1,591,641.

The agreement also provides reinsurance for liability coverages. The Company cedes 100% of liability premiums and losses to the reinsurer and receives a 20% 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 both electronically through its IMT system and in hard copies. Electronic data backups are maintained off-site through the IMT system. The CPA firm of Martin & Hanway, P.C., performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

## **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	\$ 2,659,073
Mutual Funds	308,576
Real Estate	59,736
Cash on Deposit	436,421
Premium & Agent Balances Uncollected	132,147
Computer Equipment	4,331
Federal Income Tax Recoverable	111,900
Interest Due & Accrued	21,642
Prepaid Insurance	5,385
	<hr/>
Total Assets	<b>\$ 3,739,211</b>

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

Net Losses Unpaid	\$ 143,339
Ceded Reinsurance Payable	80,670
Unearned Premium	1,101,219
Federal Income Tax	6,281
Other Accounts Payable	2,660
	<hr/>
Total Liabilities	<b>\$ 1,334,169</b>
Guaranty Fund (Note 1)	150,000
Other Surplus (Note 1)	2,255,042
	<hr/>
Total Surplus	<b>\$ 2,405,042</b>
Total Liabilities and Surplus	<b>\$ 3,739,211</b>

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

Net Premiums Earned	\$ 1,775,256
Other Insurance Income	342,112
Net Losses & Loss Adjusting Expenses Incurred	768,001
Other Underwriting Expenses Incurred	<u>583,677</u>
 Net Underwriting Income (Loss)	 \$ 765,690
Net Investment Income	47,918
Other Income	<u>6,530</u>
 Gross Profit (Loss)	 \$ 820,138
Federal Income Tax	<u>(105,619)</u>
 Net Income (Loss)	 <u>\$ 925,757</u>

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

Policyholders' Surplus, December 31, 2012	\$ 1,479,285
Net Income (Loss)	<u>925,757</u>
 Policyholders' Surplus, December 31, 2013	 <u>\$ 2,405,042</u>

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 – Guaranty Fund**

The Company calculated the guaranty fund balance based upon gross rather than net insurance in-force, as required by Section 380.271 RSMo (Financial reinsurance requirements). This resulted in the Company's reported balance of \$494,649 exceeding the required balance of \$150,000 by \$344,649. An examination change was made to reduce the guaranty fund balance by \$344,649 and increase the other surplus balance by the same amount.

### **EXAMINATION CHANGES**

The adjustments described in Note 1 resulted in a decrease in the guaranty fund balance of \$344,649 and a corresponding increase in the other surplus balance \$344,649. There was no change to total policyholder surplus as a result of these adjustments.

### **SUMMARY OF RECOMMENDATIONS**

#### **Notes to the Financial Statements (Page 10)**

It is recommended the Company calculate the guaranty fund balance in accordance with the provisions of Section 380.271 RSMo (Financial reinsurance requirements) and report the proper balance in future Annual Statement filings.

### **SUBSEQUENT EVENTS**

None.

**ACKNOWLEDGMENT**

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

**VERIFICATION**

State of Missouri        )  
                                  )  
County of Cole         )

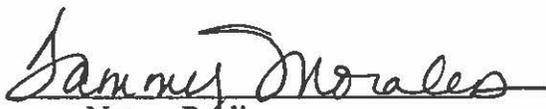
I, Jay Buschmann on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony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

  
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:

01/07/2018

  
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, CFE, CPA  
Audit Manager – Kansas City  
Missouri DIFP