



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

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

RE: Examination Report of Farmers Mutual Insurance Company of Grundy County for the period ended December 31, 2014

**ORDER**

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Grundy County for the period ended December 31, 2014, 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 380.491, 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 Farmers Mutual Insurance Company of Grundy County 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 15<sup>th</sup> day of August, 2016.



A handwritten signature in blue ink, appearing to read "John M. Huff". The signature is written over a horizontal line.

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

**REPORT OF THE  
FINANCIAL EXAMINATION OF**

**Farmers Mutual Insurance Company of Grundy County**

**AS OF  
DECEMBER 31, 2014**



**FILED**

**AUG 15 2016**

**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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February 24, 2016  
Trenton, 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

### **FARMERS MUTUAL INSURANCE COMPANY OF GRUNDY COUNTY**

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 1818 East 9th Street, Trenton, Missouri 64683. The telephone number is (660) 463-2223. This examination began on February 23, 2016, 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, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2014, 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, 2009, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Territory and Plan of Operations**

*Comment:* It was recommended the Company amend the agency agreement to ensure it adequately addresses the arrangements between the two entities. Terms to be addressed should include, but not be limited to, commission rate, rents for use of office space by the agency, and the division of resources and expenses between the Company and the agency.

*Company Response:* The Company revised its agency contract in response to the recommendation.

*Current Findings:* The current agency contract complies with the recommendations made in the prior examination.

### **Notes to the Financial Statements**

*Comment:* It was recommended the Company ensure the beginning policyholder surplus value reported in the "Gain or Loss in Surplus" reconciliation on Page 5 of the Annual Statement be equal to the ending policyholder surplus per the balance sheet of the prior year Annual Statement in future filings.

*Company Response:* The Company agreed to correct the reporting issue going forward.

*Current Findings:* A similar finding was noted during the 2014 Annual Statement analysis. The Company acknowledged the issue and filed revised Annual Statements for 2013 and 2014 to adequately address the issue.

## **HISTORY**

### **General**

The Company was originally organized and incorporated on May 6, 1895, as Farmers Mutual Insurance Company of Grundy County, Missouri. Effective April 15, 2005, the Company converted to an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company has a Certificate of Authority dated September 22, 2005, which is renewed annually.

## Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's membership is held on the first Saturday 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 at any time by the Board of Directors, and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is 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 seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors typically meets three to four times annually, and calls additional meetings as necessary. Directors are compensated \$150 per meeting.

Members serving on the Board of Directors as of December 31, 2014, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Jacob R. Black Columbia, Missouri	President - CFM Insurance Company	2015
Gary Black Trenton, Missouri	Company Manager, Secretary/Treasurer and Insurance Agent	2016
L. D. Gibson Spickard, Missouri	Vice-Chairman, Farmer and Retired County Clerk	2016
Donald C. Woodard Trenton, Missouri	Chairman of Board and Farmer	2015
John McCloud Trenton, Missouri	Farmer	2016
Eric Hoffman Trenton, Missouri	Agri-Businessman	2016
James E. Hamilton Trenton, Missouri	Retired Manager-Trenton Foods	2015

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, 2014, were as follows:

Donald C. Woodard	Chairman of the Board
Jacob R. Black	President
L.D. Gibson	Vice-Chairman
Gary W. Black	Secretary/Treasurer

### **Conflict of Interest**

The Company has conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors. The Company has its directors sign conflict of interest statements on an annual basis as a group. A review of the executed conflict of interest statements noted two potential conflicts disclosed. One director is an agent of the Company, and another director is the president of another Missouri Mutual which has a management agreement with 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' 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 \$50,000. 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. The Company's exclusive agency is the named insured on errors and omissions coverage, for which the Company pays 50% of the cost as per the provisions in the agent contract.

Other insurance coverages carried by the Company include property insurance on the home office and contents therein. The Company also carries commercial liability, workers compensation and employers liability coverage.

## **EMPLOYEE BENEFITS**

The Company had one full-time employee and three part-time employees as of December 31, 2014. The Company Manager is the only full-time employee. He receives health insurance, a small benefits package through NAMICO, and is part of a SEP IRA program provided by the Company, which only contributes after profitable years. The Manager receives no paid leave and the part-time employees receive no benefits through the Company.

## **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 and wind, but is not currently writing liability coverages.

The Company's policies are sold by a single exclusive agency, which receives a 19% commission on all new and renewal business. In late 2014, the Company entered into a Management and Services agreement with CFM Insurance Company (CFM), a mutual company located in Concordia, Missouri. Under the agreement, CFM provides various management services to the Company, including, but not limited to, regulatory compliance review, supervision of personnel, investment oversight, reinsurance consultation and audit oversight. CFM and the Company are related parties in that Jacob Black serves as President of both companies.

### **Policy Forms and Underwriting Practices**

The Company mainly utilizes a mixture of MAMIC and AAIS forms. The policies are written on a one-year continuous basis and assessments are paid annually. Renewal billings are mailed directly to the insured. Property inspections are completed by outside inspector-adjusters on a three-year basis, and a majority of the claims adjusting is performed by independent adjusters. Rates and underwriting standards are determined by the Board of Directors.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2014	\$719,147	\$ 6,109	\$378,440	\$945,784	\$ 20,970	\$ (116,100)	\$ (91,551)
2013	806,655	4,651	383,983	74,172	16,781	(4,888)	17,281
2012	790,881	4,438	342,669	53,159	16,689	(8,290)	11,099
2011	780,769	5,425	346,972	98,967	20,450	(47,101)	(23,951)
2010	804,749	5,454	317,196	60,687	33,054	(29,020)	46,824

At year-end 2014, 407 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:

	2010	2011	2012	2013	2014
Direct	\$ 317,196	\$ 346,972	\$ 342,669	\$ 383,983	\$ 378,440
Assumed	0	0	0	0	0
Ceded	(116,426)	(125,700)	(131,913)	(135,875)	(153,458)
Net	\$ 200,770	\$ 221,272	\$ 210,756	\$ 248,108	\$ 224,982

### Assumed

The Company has no assumed reinsurance business.

### Ceded

The Company's property and casualty reinsurance program is placed through intermediary Guy Carpenter & Company, Inc. and consists of various contracts with multiple participating reinsurers (reinsurer).

Under the property per risk agreement, the reinsurer covers 100% of \$490,000 in excess of \$30,000, net loss per risk, up to \$980,000 per occurrence.

Under the catastrophe agreement, the reinsurer is liable for 95% of \$1 million in losses in excess \$120,000 net loss, per occurrence.

Under the aggregate excess of loss agreement, the reinsurer is liable for 100% of losses which exceed 75% of the Company's gross net earned premium income during the year. Per the calculation provided by the intermediary, the ending attachment point for the Company for 2014 was \$193,124.

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 modified cash basis. The Company utilizes IMT Computer Services Company software for general ledger, claims reports and policy maintenance and uses a LAN document drive to store information on the Company server. All files are backed-up internally and on password protected external hard drives. In addition to the Company backups, IMT also receives automatic uploads of the system for backup. The Company also maintains paper copies of its accounting and policy records in locked filing cabinets at the home office. Jeremy Clevenger of Clevenger and Associates, CPA performs an annual audit of the Company, files the federal tax filing and completes the Annual Statement.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2014, 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, 2014**

Bonds	\$ 263,182
Stocks	1,500
Mutual Funds	6,189
Real Estate	19,649
Cash on Deposit	338,229
Reinsurance Recoverable on Paid Losses	79,876
Interest Due and Accrued	2,806
Computer Equipment	2,241
Other Assets	<u>5,475</u>
 Total Assets	 <u>\$ 719,147</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2014**

Payroll Tax	\$ 5,153
Accounts Payable	956
	<hr/>
Total Liabilities	\$ 6,109
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Guaranty Fund	\$ 150,000
Other Surplus	563,038
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Total Surplus	713,038
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Total Liabilities and Surplus	\$ 719,147
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**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2014**

Net Premiums Earned	\$ 224,982
Net Losses & Loss Adjusting Expenses Incurred	(151,237)
Other Underwriting Expenses Incurred	<u>(99,482)</u>
 Net Underwriting Income (Loss)	 (116,100)
Net Investment Income	20,970
Other Income	<u>0</u>
 Gross Profit (Loss)	 \$ (91,551)
Federal Income Tax	<u>0</u>
 Net Income (Loss)	 <u>\$ (91,551)</u>

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2014**

Policyholders' Surplus, December 31, 2013	\$ 802,004
Net Income (Loss)	(91,551)
Investment Adjustment	<u>2,585</u>
 Policyholders' Surplus, December 31, 2014	 <u>\$ 713,038</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **SUMMARY OF RECOMMENDATIONS**

None.

### **SUBSEQUENT EVENTS**

None.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the employees of Farmer Mutual Insurance Company of Grundy County during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, an examiner for the Missouri DIFP also reviewed this examination.

**VERIFICATION**

State of Missouri        )  
                                  )  
County of Cole         )

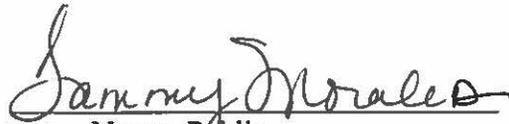
I, Jay Buschmann on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony 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 13<sup>th</sup> day of May, 2016.

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