

REPORT OF  
EXAMINATION

**Wyoming Farmers Mutual Insurance Company**

AS OF

DECEMBER 31, 2004



STATE OF WYOMING  
DEPARTMENT OF INSURANCE  
CHEYENNE, WYOMING

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SALUTATION  
Cheyenne, Wyoming  
January 20, 2006

Honorable Kenneth G. Vines  
Insurance Commissioner  
State of Wyoming  
122 West 25th Street  
Cheyenne, WY 82002-0440

Commissioner:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2004, of the financial condition, management, and affairs of

**WYOMING FARMERS MUTUAL INSURANCE COMPANY**

hereinafter referred to as the "Company," at its home office located at 1555 Mason, Wheatland, Wyoming. The following report of the examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

The examination reported upon herein was undertaken as a routine examination as called for by Wyo. Stat. § 26-2-116. The Company was most recently examined as of December 31, 2001. The current examination covers the period of January 1, 2002 through December 31, 2004.

The examination included a review and analysis of operations and a determination of the financial condition of the Company as of the date of examination. Valuation and verification of assets, determination of liabilities and reserves, and testing and analysis of such accounts and records deemed necessary to the examination were performed. Limited market conduct procedures were also performed during the examination. In addition, the exam included a limited review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with procedures suggested by the Financial Condition (E) Committee of the NAIC and other generally accepted insurance standards.

During the examination, there were some immaterial items noted that are not included in this report. These issues are discussed in a management letter that was given to the Company and its Board of Directors under separate cover.

## **DESCRIPTION OF THE COMPANY**

### **History of the Company:**

Wyoming Farmers Mutual Insurance Company was formed as a result of the merger between Wyoming Mutual Insurance Company of Wheatland, Wyoming, which was originally incorporated in 1908, as a farm mutual insurer per Chapter 26 of the Wyoming Insurance Code, and Farmers Mutual Fire Insurance Company of Albin, Wyoming, which was originally incorporated in 1914, as a farm mutual insurer per Chapter 26 of the Wyoming Insurance Code.

The merger between Farmers Mutual Fire Insurance Company and Wyoming Mutual Insurance Company came about as the result of Farmers Mutual Fire Insurance Company's desire to liquidate its business. After discussions with Wyoming Mutual Insurance Company and the Wyoming Insurance Department, the management and policyholders of Farmers Mutual Fire Insurance Company decided to merge into Wyoming Mutual Insurance Company with Wyoming Mutual Insurance Company being the surviving entity. The Company then changed its name to Wyoming Farmers Mutual Insurance Company.

For the consideration of \$55,000 paid by Wyoming Mutual Insurance Company, an agreement was entered into on September 21, 1993, between Wyoming Mutual Insurance Company and Farmers Mutual Fire Insurance Company. The provisions of the agreement included the purchase of the insurance policies of Farmers Mutual Fire Insurance Company by Wyoming Mutual Insurance Company with the simultaneous resignation of Farmers Mutual Fire Insurance Company's Board of Directors. Farmers Mutual Fire Insurance Company's original Board of Directors formed a committee that was responsible for the distribution of the \$55,000 to the policyholders of Farmers Mutual Fire Insurance Company. Wyoming Mutual Insurance Company's Board of Directors became the Board of Directors for Farmers Mutual Fire Insurance Company upon the resignation of the original Board of Directors in September of 1993, and the two companies continued to operate as

separate entities under common management until the Certificate of Merger was issued by the Wyoming Secretary of State on December 29, 1995. The Company's home office is located in Wheatland, Wyoming.

**Management and Control:**

Control of the Company rests with its Board of Directors, which is elected by the Company's members. The directors are required to be a member of the insurer per Wyo. Stat. § 26-26-115. As of December 31, 2004, the following directors were holding office:

J.R. Blevins  
Leonard Cussins  
Dan Hartley  
Clayton Rietz  
Charles Shellhart

The following were the officers of the Company as of December 31, 2004:

President – Dan Hartley  
Vice President – Clayton Rietz  
Secretary - Lori Modesitt  
Treasurer - Charles Shellhart

The Company is obtaining conflict of interest statements from its officers and directors on an annual basis. It was determined that the conflict of interest statements are adequate.

**Corporate Records:**

The minutes of the meetings of the Board of Directors were reviewed in detail. It was determined that the Company's minutes were adequately documented.

**Fidelity Bonds and Other Insurance:**

Wyoming Statute § 26-26-117 requires the treasurer and secretary of an insurer to each give bonds to the insurer for the faithful performance of their duties in an amount the board of directors designates.

The Company currently has \$25,000 each in fidelity insurance with Western Surety Company for both the Secretary and Treasurer. In addition, the Company has \$10,000 in fidelity insurance with Western Surety Company for the President. Western Surety Company is licensed in the State of Wyoming.

The Company does not own any real estate. Per discussion with the Secretary and in reviewing the Company's disaster recovery plan, the Company has made the business decision not to purchase insurance on its property due to the relatively low value of its office equipment.

**Officers', Employees', and Agents' Welfare and Pension Plans:**

The Company does not offer any pension or other type of benefit plan to its officers and employees.

**Territory and Plan of Operation:**

Wyoming Statute § 26-26-102 states that farm mutual insurers can insure only against loss or damage by fire or other contingencies usually covered under extended coverage endorsements; and rural property consisting of dwellings, buildings, including the usual contents therein, livestock, machinery, vehicles, growing crops and other rural property owned by a member of the insurer or by his spouse. This statute further limits the Company's market area to property that is located within the State of Wyoming, and that is not located within an incorporated city or town. In addition, the Company is restricted to insuring no more than three-fourths of the property's actual value according to statute.

The Company is properly licensed to sell property insurance in the State of Wyoming. The Company's major producer is its Treasurer, who is a licensed producer in the State of Wyoming. In addition, the Company has appointed thirteen insurance agencies and two producers throughout Wyoming.

**Growth of the Company:**

Premiums written have increased \$215 from \$45,234 in 2002 to \$45,449 in 2004. As of December 31, 2004, the Company's surplus per examination is \$129,333, which is a decrease of \$29,332 from the December 31, 2001, surplus per examination. Admitted assets have decreased \$23,091 from \$180,509 as of December 31, 2001, to \$157,418 as of December 31, 2004.

The Company's growth has been limited due to the statutory restrictions on the type of insurance it is able to write and the market area it is able to cover.

**Business In Force:**

Revenues are generated by line of business in the following percentages for 2004:

Line of business	Wyoming
Fire	54
Allied Lines	46
Total	100

**Loss Experience:**

The Company's loss experience fluctuates significantly because most of its claims are due to wind and hail storms, which vary from year to year. The Company only records a loss reserve for reported claims that have not been paid as of year-end. At year-end 2004, the Company did not report any loss reserves.

The Company conducts its business on the assessment plan, however, the Company has been able to pay for all of its losses with its excess surplus funds and has not had to make any special assessments.

**Reinsurance:**

As of December 31, 2001, the Company's reinsurance coverage was cancelled because its reinsurer was exiting the market. The Company has been unable to obtain replacement coverage due to its small premium volume.

**Accounts and Records:**

The Company's administrative, accounting, underwriting, policy administration, and claims handling functions are performed at its home office in Wheatland, Wyoming.

The Company's accounts and records were reviewed in accordance with the NAIC Examiner's Handbook and the Wyoming Insurance Code.

**Market Conduct:**

In conjunction with the financial examination, limited market conduct procedures were performed on the Company's claims settlement practices. All of the claims for the years 2002 through 2004 were reviewed. No statutory violations were noted.

**WYOMING FARMERS MUTUAL INSURANCE COMPANY**  
**BALANCE SHEET**  
as of December 31, 2004

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds <b>(see Note 1)</b>	\$42,000	\$0	\$42,000
Cash and short-term investments <b>(see Note 1)</b>	114,654	0	114,654
Subtotal – cash and invested assets	156,654	0	156,654
Investment income due and accrued	764	0	764
Subtotal - other than invested assets	764	0	764
Total assets	\$157,418	\$0	\$157,418
<b>LIABILITIES &amp; SURPLUS</b>			
Other expenses			\$2,980
Unearned premiums			24,520
Amounts withheld or retained for account of others			585
Total liabilities			28,085
<b>SURPLUS</b>			
Unassigned funds (surplus)			129,333
Surplus as regards policyholders			129,333
Total liabilities & surplus			\$157,418

**WYOMING FARMERS MUTUAL INSURANCE COMPANY**  
**STATEMENT OF OPERATIONS**  
for the Year Ending December 31, 2004

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Underwriting Income

Premiums earned	\$46,892
Losses incurred	2,163
Loss expenses incurred	1,690
Other underwriting expenses incurred	47,572
Total underwriting deductions	51,425
Net underwriting gain or (loss)	(4,533)

Investment Income

Net investment income earned	1,461
Net investment gain	1,461
Net income / (loss)	(\$3,072)

**WYOMING FARMERS MUTUAL INSURANCE COMPANY**  
**CAPITAL AND SURPLUS**  
for the Year Ending December 31, 2004

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Surplus as regards policyholders, December 31, 2003	\$132,405
<u>Gains and (losses) in surplus</u>	
Net income / (loss)	(3,072)
	<hr/>
Change in surplus as regards policyholders for the year	(3,072)
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Surplus as regards policyholders, December 31, 2004	<u>\$129,333</u>

**WYOMING FARMERS MUTUAL INSURANCE COMPANY**  
**RECONCILIATION OF SURPLUS ACCOUNT**  
December 31, 2002 Through December 31, 2004

	Per Annual Statements		Per Exam
	2002	2003	2004
Surplus, December 31, of previous year	\$158,666	\$146,553	\$132,405
Net income (loss)	(12,306)	(14,148)	(3,072)
Change in nonadmitted assets	193	0	0
Net change in surplus	(12,113)	(14,148)	(3,072)
Surplus, December 31, of current year	\$146,553	\$132,405	\$129,333

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1: Certificates of Deposit**

The Company had two certificates of deposit with maturity dates of thirteen months that were reported as cash. The value of the two certificates is \$42,000. Page 270 of the 2004 Annual Statement Instructions requires certificates of deposit that have maturity dates over one year to be recorded as bonds in Schedule D.

**Recommendation 1:** It is recommended that the Company report its certificates of deposit that have maturity dates over one year as bonds in accordance with the Annual Statement Instructions. These certificates should be recorded in the “Industrial and Miscellaneous (Unaffiliated), Issuer Obligations” category of Schedule D.

## **SUMMARY OF RECOMMENDATIONS**

**Recommendation 1:** It is recommended that the Company report its certificates of deposit that have maturity dates over one year as bonds in accordance with the Annual Statement Instructions. These certificates should be recorded in the “Industrial and Miscellaneous (Unaffiliated), Issuer Obligations” category of Schedule D.

**CONCLUSION**

Kathryn E. Cotton, examiner for the Wyoming Insurance Department, participated in the examination. Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **WYOMING FARMERS MUTUAL INSURANCE COMPANY**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

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Kathryn E. Cotton, CPA  
Examiner In-Charge  
Wyoming Department of Insurance

This report has been reviewed and is true and correct to the best of my knowledge and information.

\_\_\_\_\_  
Linda L. Johnson, CPA, CFE  
Chief Financial Examiner  
Wyoming Department of Insurance

The foregoing instrument was acknowledged under oath before me this \_\_\_\_ day of February 2006.

Witness my hand and official seal.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_