

**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 Linn County for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Linn County 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 Farmers Mutual Insurance Company of Linn 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) implement, and verify compliance with, each item mentioned in the Summary 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 26th day of June, 2015.



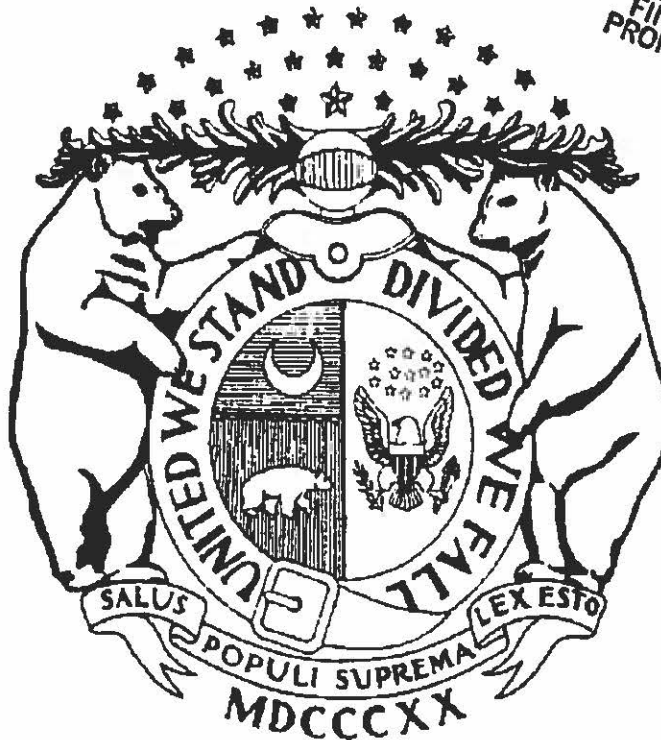
A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY
OF LINN COUNTY**

**AS OF
DECEMBER 31, 2013**

FILED
JUN 26 2015
**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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March 13, 2015
Meadville, 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 LINN COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 211 South Macon, Meadville, Missouri 64659, telephone number (660) 938-4415. This examination began on March 4, 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 Company amend its agent agreements to include the provision that requires agents to maintain errors and omissions coverage.

Company Response: The Company agreed to amend its agent contracts to include a provision requiring agents to maintain errors and omissions insurance coverage.

Current Findings: The Company amended the agent contracts to require that agents have errors and omissions coverage at all times while under contract with the Company.

HISTORY

General

The Company was originally established on December 16, 1893, and was incorporated on March 3, 1894, as Farmers Mutual Fire Insurance Company. On March 9, 1979, the Company changed its name to Farmers Mutual Insurance Company of Linn County. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Monday in March, at the home office of the Company, or at such other place as may be designated by management. 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. Ten 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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and directors are compensated \$75 per each meeting attended. The President is paid additional compensation of \$600 annually.

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 Expires</u> |
|--|---------------------------|---------------------|
| Anthony Mundell Brookfield, Missouri | Farmer | 2017 |
| Gary Amen New Boston, Missouri | Farmer | 2015 |
| James Maxwell Brookfield, Missouri | Fabricator/Farmer | 2017 |
| Danny McIntyre Meadville, Missouri | Carpenter | 2015 |
| Bill Brockman Brookfield, Missouri | Farmer | 2016 |
| Johnny Anderson Linneus, Missouri | Farmer | 2015 |
| Jerry Ervie Marceline, Missouri | Machinery Salesman/Farmer | 2017 |
| Alicia Rojas New Boston, Missouri | Speech Therapist/Farmer | 2017 |
| Jerry Crookshanks Meadville, Missouri | Retired Postal Carrier | 2017 |

The Board of Directors elects for a term of one year the officers of the Company. The officers of the Company serving at December 31, 2013, were as follows:

| | |
|-----------------|---------------------|
| Anthony Mundell | President |
| Gary Amen | Vice-President |
| Dean Sayre | 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, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation, Certificate of Authority, and the Bylaws of the Company. On March 1, 2010, the membership approved amendments to the Articles of Incorporation, which changed the date of the annual meeting from the third Saturday in February to the first Monday of March. No changes to the Bylaws or the Certificate of Authority were noted during the period under review.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination and appear to properly reflect corporate transactions and events. In addition, the Company's policies for investments and underwriting were reviewed, as were the agent agreements and the procedures manual. No material issues were noted.

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 insurance for its directors and officers and errors and omissions coverage for its in-house agents. Independent agents are required to obtain errors and omissions coverage and provide proof of current coverage to the Company.

The Company carries property coverage on its home office and contents, as well as general liability and workers compensation insurance.

EMPLOYEE BENEFITS

The Company has two full-time employees and one part-time employee. The employee benefits package offered by the Company includes contributions to individual retirement accounts, health, disability, accidental death and dismemberment insurance coverages, and paid time off.

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 five licensed independent agencies and the Company-owned agency, which receive a commission of 15% on all policies. The Company's Secretary-Treasurer and the Assistant Secretary are licensed agents of the Company-owned agency. They are compensated as employees of the Company and separately compensated as agents by the Company-owned Agency.

Policy Forms and Underwriting Practices

The Company mainly uses AAIS policy forms, but also uses forms from the Grinnell Mutual Reinsurance Company for ceded liability policies. The policies are continuous and renewed annually. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. The Company's agents and the Secretary-Treasurer perform property inspections. Claims adjusting is performed primarily by the Secretary-Treasurer, but the Company utilizes outside adjusters for complex claims or catastrophes. The Company also utilizes structural engineers, cause and origin experts for fires, veterinarians and other specialists when necessary.

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 | \$3,293,205 | \$ 71,110 | \$873,729 | \$238,328 | \$ (1,025) | \$110,900 | \$109,349 |
| 2012 | 3,126,192 | 13,446 | 839,864 | 388,113 | 4,908 | 73,084 | 76,855 |
| 2011 | 3,046,298 | 10,407 | 720,422 | 580,786 | 10,281 | 28,153 | 35,780 |
| 2010 | 3,041,029 | 40,918 | 733,691 | 252,140 | 32,901 | 92,489 | 120,045 |
| 2009 | 2,930,529 | 50,463 | 686,215 | 223,372 | 56,471 | 129,632 | 176,538 |

At year-end 2013, 1,033 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 | \$ 868,367 | \$ 834,269 | \$ 715,144 | \$ 728,254 | \$ 681,197 |
| Assumed | 5,362 | 5,595 | 5,278 | 5,437 | 5,018 |
| Ceded | (292,234) | (249,387) | (209,675) | (221,621) | (210,132) |
| Net | \$ 581,495 | \$ 590,477 | \$ 510,747 | \$ 512,070 | \$ 476,083 |

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 84% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 84% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 1% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (reinsurer) under a single reinsurance agreement. The agreement includes first occurrence excess, individual occurrence excess, aggregate excess and facultative coverage for property losses, and quota share coverage for liability risks.

Under the first occurrence and individual occurrence of loss sections of the agreement, the Company retains \$50,000 for each individual property loss, and the reinsurer is responsible for 100% of losses in excess of the retention.

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 loss ratio, plus a negotiated load. The reinsurer is liable for 100% of the property losses in excess of this retention. The attachment point for 2013 was \$342,184.

The risks ceded under the above-noted coverages are limited by the reinsurer to \$1,000,000 per exposure, with the exception of farm machinery and equipment storage buildings which are limited to \$2,000,000 per exposure. Under the facultative reinsurance section of the agreement,

the Company may cede property risks that exceed these individual risk limits. Rates are determined by the reinsurer on an individual basis.

The contract also has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium 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 on an accrual basis. The Company uses IMT policy maintenance software for recording and storing policy, claims, billing and premium accounting information. Hard copies of original policies, claims, cancellations, applications and other files are also held.

The CPA firm of Van de Ven, LLC, performs an annual compilation of the Company's financial statements and prepares the Company's 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 | \$ 800,481 |
| Real Estate | 18,730 |
| Cash on Deposit | 2,392,992 |
| Other Investments | 61,422 |
| Computer Equipment | 7,192 |
| Interest Due & Accrued | 9,327 |
| Other Assets | 3,061 |
| | <hr/> |
| Total Assets | \$ 3,293,205 |
| | <hr/> |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

| | |
|------------------------------------|--------------|
| Net Losses Unpaid | \$ 62,959 |
| Net Loss Adjusting Expenses Unpaid | 49 |
| Payroll Tax | 1,961 |
| Other Liabilities | 6,141 |
| | <hr/> |
| Total Liabilities | \$ 71,110 |
| | <hr/> |
| Guaranty Fund | \$ 150,000 |
| Other Surplus | 3,072,095 |
| | <hr/> |
| Total Surplus | \$ 3,222,095 |
| | <hr/> |
| Total Liabilities and Surplus | \$ 3,293,205 |
| | <hr/> |

STATEMENT OF INCOME
For the Year Ending December 31, 2013

| | |
|---|-------------------|
| Net Premiums Earned | \$ 581,495 |
| Other Insurance Income | 91,093 |
| Net Losses & Loss Adjusting Expenses Incurred | (272,821) |
| Other Underwriting Expenses Incurred | <u>(288,867)</u> |
| Net Underwriting Income (Loss) | \$ 110,900 |
| Net Investment Income | <u>(1,025)</u> |
| Gross Profit (Loss) | \$ 109,875 |
| Federal Income Tax | <u>(526)</u> |
| Net Income (Loss) | <u>\$ 109,349</u> |

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

| | |
|---|---------------------|
| Policyholders' Surplus, December 31, 2012 | \$ 3,112,746 |
| Net Income (Loss) | <u>109,349</u> |
| Policyholders' Surplus, December 31, 2013 | <u>\$ 3,222,095</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 Farmers Mutual Insurance Company of Linn County 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.

J. Buschmann
Jay Buschmann, AFE
Financial Examiner/Analyst
Missouri DIFP

Sworn to and subscribed before me this 19th day of May, 2015.

My commission expires:

04-14-2016

Beverly M. Webb
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.

Mark Nance
Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP