REPORT OF

FINANCIAL EXAMINATION

Arnsberg Farmers Mutual Insurance Company

As of:

December 31, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SUBJECT	PAGE
SALUTATION	**1**
SCOPE OF EXAMINATION	**1**
PERIOD COVERED	1
PROCEDURES	1
COMMENTS – PREVIOUS EXAMINATION	1
HISTORY	**2**
GENERAL	2
MANAGEMENT AND CONTROL	2
CONFLICT OF INTEREST	3
CORPORATE RECORDS	3
FIDELITY BOND AND OTHER INSURANCE	**3**
EMPLOYEE BENEFITS AND PENSION PLANS	**3**
INSURANCE PRODUCTS AND RELATED PRACTICES	**4**
TERRITORY AND PLAN OF OPERATIONS	4
POLICY FORMS AND UNDERWRITING PRACTICES	4
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	**4**
REINSURANCE	**5**
ASSUMED	5
CEDED	5
ACCOUNTS AND RECORDS	**5**
FINANCIAL STATEMENTS	**5**
ASSETS	6
LIABILITIES, SURPLUS AND OTHER FUNDS	6
STATEMENT OF INCOME	7
CAPITAL AND SURPLUS ACCOUNT	**7**
NOTES TO FINANCIAL STATEMENTS	**7**
EXAMINATION CHANGES	**8**
GENERAL COMMENTS AND/OR RECOMMENDATIONS	**8**
SUBSEQUENT EVENTS	**8**
ACKNOWLEDGMENT	**9**
VERIFICATION	**9**
SUPERVISION	**9**

May 18, 2007
Uniontown, MO

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Arnsberg Farmers Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 11994 South Highway 61, Uniontown, Missouri 63783; telephone number (573) 788-2304. This examination was conducted at the home office in Uniontown, Missouri. The examination began May 14, 2007, and concluded May 18, 2007.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance, Financial Institutions and Professional Registration in 2002 for the year ending December 31, 2001. The current examination covers the period from January 1, 2002, through December 31, 2006, and was conducted by an examiner from the Missouri Department of Insurance, Financial Institutions and Professional Registration.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri.

Comments – Previous Examination

There were no general comments or recommendations made in the previous examination report.

HISTORY

General

The Company was organized October 1, 1880, as The Arnsberg Mutual Fire Insurance Company. During the period 1890 to 1916 the Company underwent two name changes. The first change was to Arnsberg Fire and Lightning Insurance Company and then to Arnsberg Farmers Mutual Fire and Lightning Insurance Company. The Company adopted its name of Arnsberg Farmers Mutual Insurance Company in October of 1969.

The Company has a Certificate of Authority dated July 1, 1991, and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). In 2002, the Company amended its bylaws to convert from an assessable to a non-assessable mutual.

Management and Control

A board of five directors, who meet monthly, provides oversight of the Company. Each director serves a three-year term. Directors are elected at annual membership meetings held on the first Monday in March. The board of directors may call special meetings of the membership at any time or upon petition of one-fourth of the members.

The directors receive $150 compensation for each meeting attended and may receive additional compensation for extraordinary meetings attended. Directors, along with employees and agents, may also be eligible to receive a bonus determined annually at the December board of directors meeting based on after-tax performance of the Company.

The board of directors consisted of the following members as of December 31, 2006, holding the offices indicated:

Name/Address	Occupation	Term
Roger C. Thomas, President Rt. 7, Box 261 Perryville, MO 63775	Farmer	2004 to 2007
Dennis E. Lohmann, Vice President 28 Spring Lake Road Perryville, MO 63775	Bartender	2005 to 2008
Jerry D. Ellis Rt. 2, Box 2265 Sedgewickville, MO 63781	Farmer	2005 to 2008
Antonia M. Ponder 197 PCR 528 Perryville, MO 63775	Cook	2006 to 2009

Donald O. Telle 12571 South Hwy. 61 Uniontown, MO 63783	Retired	2004 to 2007

In addition, Donald A. Hemmann is the Company's secretary and treasurer.

Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors and officers. A director disclosed that a relative by marriage is a partner in the CPA firm hired by the Company. To mitigate this conflict, the director abstains from voting on any matter concerning the CPA firm. No additional potential conflicts of interest were identified during this examination.

Corporate Records

Articles of incorporation, bylaws, and minutes from the annual membership meetings and board meetings were reviewed. The Company is following the guidelines established in the articles of incorporation and bylaws. An amendment made to the Articles in February 2006 changed the date of the annual membership meeting from the last Saturday in February to the first Monday in March. The board meeting minutes indicated that the board is adequately informed regarding the Company's operations. The board formally acknowledged receipt of the previous Missouri Department of Insurance, Financial Institutions and Professional Registration report of examination during its meeting on July 22, 2002. During the board meeting held August 19, 2002, the board approved converting the Company from an assessable to a non-assessable mutual. Attendance at the board and annual membership meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

Company management has acted to minimize the risk exposure of the Company. The Company has a fidelity bond totaling $100,000 from St. Paul Fire and Marine Insurance Company. This meets the minimum amount recommended by the National Association of Insurance Commissioners for a company of this size and complexity. MAMIC Mutual Insurance Company provides directors and officers liability coverage, with an aggregate limit of $2,000,000 and errors and omissions liability coverage, with an aggregate limit of $2,000,000. The Company has a property and general liability policy for its home office from Grinnell Mutual Reinsurance Company with a limit of $150,000 for the building, $30,000 for contents and $500,000 aggregate for liability. The Company is covered by a workers compensation policy from Missouri Employers Mutual Insurance Company.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has two full-time and three part-time employees. Benefits for full-time employees include paid vacation and holidays, sick leave and life and health insurance. There is also a 401(k) retirement plan and disability coverage.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Department of Insurance, Financial Institutions and Professional Registration to operate under the provisions of Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage throughout Missouri, but concentrates mainly in Perry and surrounding counties.

The Company's policies are marketed by five captive agents and one agency, receiving a commission of 18% for homeowner's coverage and 16% for fire and extended coverage.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by the American Association of Insurance Services and Grinnell Mutual Reinsurance Company. Policies are written for continuous one-year terms. Inspections are performed by the agents and are completed on all new applications. Inspections are then completed every three years.

Property losses are adjusted by Company personnel. Grinnell Mutual Reinsurance Company does the adjusting for liability claims. Payment is made after a satisfactory signed proof of loss is received.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2006	2005	2004	2003	2002
Admitted Assets	$5,803,748	$5,874,017	$5,605,893	$5,428,475	$5,195,965
Liabilities	$721,514	$687,052	$608,414	$696,955	$482,917
Gross Assessment / Premium	$1,844,044	$1,666,695	$1,516,793	$1,354,857	$1,199,158
Losses Incurred	$976,561	$654,947	$515,410	$746,399	$619,933
Investment Income	$248,972	$250,157	$246,150	$249,070	$251,249
Underwriting Income	$(360,068)	$(53,379)	$17,691	$(235,848)	$(125,368)
Net Income	$(104,731)	$189,486	$265,959	$19,479	$124,892
Policies In Force	3,358	3,244	3,082	2,921	2,728

These figures are based on data from annual statements provided by the Company. There has been a steady increase in the number of policies in force each year. The adverse underwriting and net loss for 2006 was a result of several storms during the year.

REINSURANCE

Assumed

The Company is part of a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement pertains to errors and omissions policies and directors and officers' liability policies written by MAMIC. The agreement is a quota share agreement in which the Company is responsible for 4% of MAMIC's ultimate net loss on errors and omissions policies and for 4% of MAMIC's ultimate net loss on directors' and officers' liability policies.

Ceded

The Company has reinsurance with Grinnell Mutual Reinsurance Company. In force business is reinsured by the following agreements:

Aggregate Excess Reinsurance The reinsurer covers 100% of losses in excess of the Company's retention limit. The retention limit is a calculated amount that includes, but is not limited to, the Company's ten-year average fire loss ratio, gross fire risks in force and a load factor. The agreement requires larger risks (per schedule) to be submitted on a facultative basis. The Company's retention amount for 2006 was $949,341 with an associated annual premium rate of $0.4990 per $1,000 of gross fire risk in force.

Earthquake Insurance The reinsurer covers 100% of earthquake losses if the basic policy covers earthquake losses.

Comprehensive Personal Liability The reinsurer covers 100% of all liability losses with a 20% ceding commission paid to the Company.

ACCOUNTS AND RECORDS

The Company maintains policyholder and financial records on an automated system. Accounting records for premiums, claims, accounting and financial reporting are kept on a mutual insurance company software package from Rural Computer Consultants. Premium payments and claims are recorded manually, and then posted into the system.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm is used to prepare the Company's financial statements, tax returns and annual statement. The annual statement was prepared on an accrual basis and generally meets statutory requirements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006, 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, and therefore were only noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	$ 4,990,927
Real Estate	30,049
Cash on Deposit	477,980
Other Investments	90,289
Reinsurance Recoverable on Paid Losses	147,400
Computer Equipment	122
Federal Income Tax Recoverable	11,868
Interest Due and Accrued	55,113
Total Assets	**$ 5,803,748**

LIABILITIES, SURPLUS AND OTHER FUNDS

Gross Losses Unpaid less Reinsurance Recoverable (Note 1)	$ -
Ceded Reinsurance Premium Payable (Note 2)	25,093
Unearned Premium	690,626
Premium Tax Payable	1,695
Total Liabilities	**$ 717,414**
Guaranty Fund (Note 3)	$150,000
Other Surplus	4,936,334
Total Policyholder Surplus	**$ 5,086,334**
Total Liabilities and Surplus	**$ 5,803,748**

STATEMENT OF INCOME

Net Earned Assessment / Premium Income	$ 1,163,416
Other Insurance Income	64,956
Net Losses & Loss Adjustment Expense	(992,963)
Underwriting Expenses	(595,477)
Net Underwriting Income (Loss)	**$ (360,068)**
Net Investment Income	243,469
Other Income	-
Gross Profit or (Loss)	(116,599)
Federal Income Tax	11,868
Net Profit or (Loss)	**$ (104,731)**

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2005	$ 5,186,965
Net Profit or (Loss)	(104,731)
Examination Changes (Net)	4,100
Policyholder Surplus, December 31,2006	**$ 5,086,334**

NOTES TO FINANCIAL STATEMENTS

Note 1 Gross Losses Unpaid less Reinsurance Recoverable **$0**

The Company reported $320 more recoverable from Grinnell Mutual Reinsurance Company than the amount reserved for unpaid losses. This appears to be an entry error since the Company is only entitled to reimbursement for the amount of loss paid. An adjustment is necessary to reduce the balance to $0.

Note 2 Ceded Reinsurance Payable **$25,093**

The Company receives a 20% commission on liability coverage ceded to Grinnell Mutual Reinsurance Company. When the Company reported the premium due to Grinnell, the balance was not reduced by the commission. The Company overstated the liability by $4,420.

Note 3 Guaranty Fund **$150,000**

The Company has overstated its guaranty fund balance by $753,760. This amount is reclassified to surplus to obtain an adjusted balance in the Guaranty Fund of $150,000.

EXAMINATION CHANGES

Total Policyholder Surplus per 2006 Annual Statement:			$5,082,234
	Increase In Surplus	Decrease In Surplus	
Gross Losses Unpaid less Reinsurance Recoverable		(320)	
Ceded Reinsurance Payable	4,420		
Guaranty Fund	753,760	(753,760)	
	758,180	(754,080)	
Net Increase / (Decrease) in Surplus			4,100
Total Policyholder Surplus per 2006 Examination			$5,086,334

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Arnsberg Farmers Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Karen J. Milster, 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 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 examiner finds reasonably warranted from the facts.

Karen Milster

Karen J. Milster, CPA, CFE
Financial Examiner
Missouri Department of Insurance, Financial Institutions and Professional Registration

JOYCE A. WILLIAMS
Notary Public - Notary Seal
State of Missouri - County of St. Louis
My Commission Expires Aug. 21, 2010
Commission #06926816

Sworn to and subscribed before me this 21 day of May, 2007.

My commission expires:
8/21/2010

Joyce A. Williams
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.

Christiana Dugopolski

Christiana Dugopolski, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration