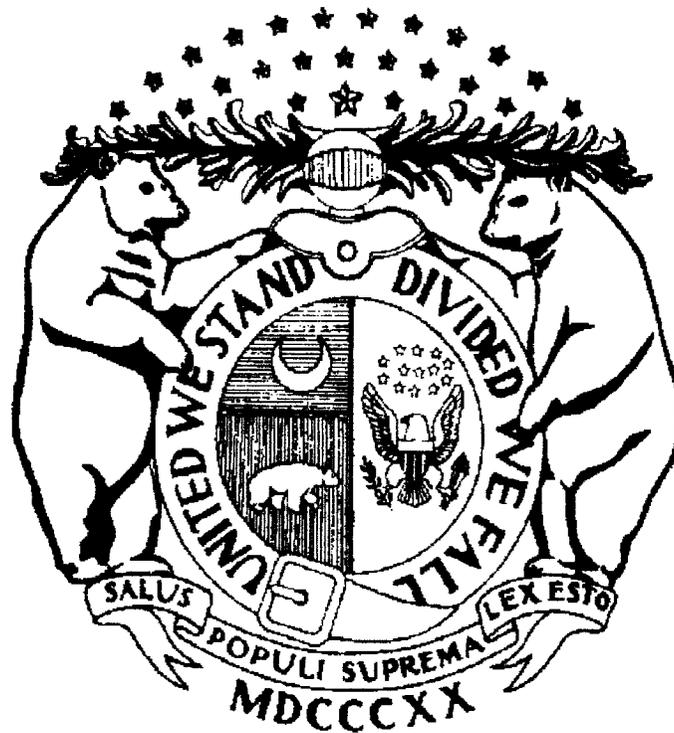


**REPORT OF THE
FINANCIAL EXAMINATION OF
CEDAR COUNTY FARMERS MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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May 23, 2007
Stockton, Missouri

Honorable Douglas M. Ommen, 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

CEDAR COUNTY FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 207 West Street (P.O. Box 499), Stockton, Missouri 65785, telephone number (417) 276-4617. This examination began on May 21, 2007, and was concluded on May 23, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2001, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2002, through December 31, 2006, 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 Missouri Department of Insurance 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, 2001, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management and Control

Comment: It was recommended the Company amend or restate its Articles of Incorporation to reflect the actual number of directors as approved by the Board of Directors. The amended or restated Articles should then be filed with the Secretary of State's office.

Company Response: The Company restated its Articles of Incorporation and submitted them to the DIFP for approval.

Current Findings: The Company has properly restated and filed the amended Articles of Incorporation to reflect its current practice regarding number of directors.

Conflict of Interest

Comment: The Board of Directors were directed to disclose all potential conflicts of interest, including their being agents of the Company, on the conflict of interest statements they submit.

Company Response: The Company has revised this form to show the Board of Directors are also writing agents.

Current Findings: Potential conflicts of interest were not adequately disclosed on the conflict of interest statements during the examination period (see the "Conflict of Interest" section of this report).

Corporate Records

Comment: The Company was directed to ensure that the directors review the financial status of the Company at the quarterly meetings, and that the review be documented in the meeting minutes.

Company Response: The Board receives and reviews a copy of the financial report at the board meetings.

Current Findings: Director review of the financial statements of the Company was adequately documented in the meeting minutes during the examination period.

Territory and Plan of Operations

Comment: The Company was directed to add provisions to the agent contracts limiting the amount of time the agent has to submit an application and/or inspection form to the Company and requiring all forms to be completed in full prior to submission. In addition, the Company is directed to obtain a written agent agreement with the Secretary/Treasurer.

Company Response: The Company is in the process of rewriting its agent contracts. The Company has a signed agreement with its Secretary/Treasurer.

Current Findings: The agent agreements contain application time limit provisions but do not contain requirements for fully-completed applications and forms (see the "Territory and Plan of Operation" section of this report). The Company has a written agent agreement with the Secretary/Treasurer.

Accounts and Records

Comment: The Company was directed to monitor its investments regarding FDIC insurance limits, require two signatures on all checks, ensure the accuracy of its check register, perform monthly bank reconciliations, and establish a claims committee.

Company Response: The Company has implemented the recommendations.

Current Findings: During the examination period, the Company appears to have adequately diversified its deposit accounts. Two signatures are currently required on all checks, and bank reconciliations are performed on a monthly basis. No issues were noted with the accuracy of the Company's check register as a result of the examination. The Board of Directors has appointed a claims committee.

HISTORY

General

The Company was originally organized on August 7, 1897, as Cedar County Farmers Mutual Fire Insurance Association. The Company subsequently operated as Farmers Mutual Fire Insurance Company of Cedar County. On February 6, 2006, the Company amended its Articles of Incorporation, changing its official name to Cedar County Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated May 18, 2006, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Monday in February at the Stockton, Missouri. Special meetings of the members may be called at any time and shall be called upon petition of one-fourth of the members. Quorum requirements and proxy voting are not addressed by the Articles of Incorporation.

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 meets approximately every other month. Directors who are also agents of the Company receive \$40 per each meeting attended, while directors who are not also agents of the Company receive \$80 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2006, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Donald B. Davis 9650 East Highway Y Stockton, Missouri	Farmer	2005-2008
Maurice Fugate 1308 South Highway 32 El Dorado Springs, Missouri	Real Estate Agent/Insurance Agent/Builder	2006-2009
James R. Lower 12710 South 2301 Road Stockton, Missouri	Farmer	2004-2007
Kent Morgan 22795 East 1620 Road Fair Play, Missouri	Farmer	2005-2008
Leo L. Lady 1006 Airport Road El Dorado Springs, Missouri	Retired	2006-2009
Harold Burmester 5991 East 1724 Road Jericho Springs, Missouri	Farmer	2005-2008
Kathy Crain P.O. Box 539 Stockton, Missouri	Insurance Agent	2006-2009

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, 2006, were as follows:

Maurice Fugate	President
Harold Burmester	Vice-President
Lila Starbuck	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. No conflicts of interest were disclosed in the statements; however, it was noted that some directors are agents for the Company as well as agents for other companies. It is recommended that members of the Board of Directors disclose all potential conflicts of interest in future conflict of interest statements.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 6, 2006, the Articles of Incorporation were amended to change the Company's name and to change wording to facilitate the Company's conversion to an Extended Missouri Mutual Insurance Company. No amendments were made to the Bylaws during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. It was noted that in most instances, the Company did not document the number of members in attendance at the membership meetings in the minutes. Such documentation is essential to determine if quorum requirements are met. Although the Company's Articles of Incorporation are silent as to quorum requirements, Section 380.381 RSMo. (Board of Directors, Election – Terms – Vacancies – Annual Meeting, Quorum, Voting Rights) requires a minimum of eight members in attendance to attain a quorum. It is recommended the Company document membership meeting attendance in the meeting minutes. 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, which is between \$50,000 and \$75,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$750,000 and a \$5,000 deductible in aggregate for each claim.

The Company purchases errors and omissions coverage for its exclusive agents with limits of \$500,000 each agent. The Company reimburses its non-exclusive agents a portion of the cost of their errors and omissions coverage.

The Company carries property insurance on its home office and contents and business liability insurance coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees. The Company provides the employees with paid vacation and sick leave, and reimburses a portion of each employee's health insurance coverage cost. The Company appears to have made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). 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 coverages. The Company's policies are sold by 5 licensed agents, who are also directors of the Company. The agents receive a commission of 15%. The agent agreements do not contain provisions which require that all applications and forms be fully completed prior to submission to the home

office. Furthermore, the agreements do not address the responsibility for errors and omissions insurance. It is recommended the Company amend its agent agreements to require that all applications and forms be completed in full prior to submission to the home office and to add provisions which address the responsibility for obtaining errors and omissions insurance.

Policy Forms and Underwriting Practices

The Company uses AAIS and Grinnell Mutual Reinsurance Company policy forms. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents and adjusting services are performed by independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2006	\$1,900,084	\$424,657	\$759,840	\$ 704,243	\$61,531	\$(143,253)	\$(60,650)
2005	1,965,765	49,687	727,575	230,228	51,679	99,288	168,729
2004	1,886,742	143,391	640,492	519,867	45,440	(139,130)	(93,353)
2003	2,036,202	199,604	533,257	6,016,534	33,667	36,671	98,594
2002	1,771,377	31,869	547,747	209,057	46,761	22,935	69,644

At year-end 2006, 1,658 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:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct	\$547,747	\$533,257	\$640,492	\$727,575	\$759,840
Assumed	0	0	0	0	0
Ceded	<u>(353,899)</u>	<u>11,568</u>	<u>(211,575)</u>	<u>(241,115)</u>	<u>(263,112)</u>
Net	<u>\$193,848</u>	<u>\$544,825</u>	<u>\$428,917</u>	<u>\$486,460</u>	<u>\$496,728</u>

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 excess with aggregate excess plan reinsurance agreement. The individual occurrence of loss section of the agreement covers fire and wind risks. The Company retains \$50,000 per occurrence and the reinsurer's limits are \$500,000 for commercial and public property and livestock, poultry and horse operations and \$750,000 for dwellings and farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2006 was \$.4102 for fire and \$.1206 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. 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 2006 was \$354,107 and the annual premium paid was \$.7320 per \$1,000 of adjusted gross fire risks in force.

The Company also has agreements to market liability and earthquake coverages for the reinsurer. Under the terms of the agreements, the Company receives a 20% 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 CPA firm of Daniel, Schell, Wolfe & Associates, P.C. 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, 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. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2006

Bonds	\$ 607,651
Real Estate	247,680
Cash on Deposit	1,009,977
Reinsurance Recoverable on Paid Losses	19,264
Computer Equipment	1,649
Interest Due and Accrued	13,863

Total Assets	<u><u>\$ 1,900,084</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Ceded Reinsurance Premium Payable	\$ 20,919
Unearned Premium	399,291
Federal Income Tax Payable	3,319
Other Liabilities	1,128

Total Liabilities	\$ 424,657

Guaranty Fund	\$ 150,000
Other Surplus	1,325,427

Total Surplus	1,475,427

Total Liabilities and Surplus	<u><u>\$ 1,900,084</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Premiums Earned	\$ 477,436
Net Losses & Loss Adjustment Expenses Incurred	(371,285)
Other Underwriting Expenses Incurred	(249,404)

Net Underwriting Income (Loss)	\$ (143,253)

Investment Income	\$ 61,531
Other Income	30,421

Gross Profit (Loss)	\$ (51,301)
Federal Income Tax	(9,349)

Net Income (Loss)	\$ (60,650)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 1,916,078
Net Income (Loss)	(60,650)
Prior Period Adjustment – Unearned Premium	(379,999)
Rounding	(2)

Policyholders' Surplus, December 31, 2006	\$ 1,475,427
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Conflict of Interest (Page 4)

It is recommended that members of the Board of Directors disclose all potential conflicts of interest in future conflict of interest statements.

Corporate Records (Page 4)

It is recommended the Company document membership meeting attendance in the meeting minutes.

Territory and Plan of Operation (Page 4)

It is recommended the Company amend its agent agreements to require that all applications and forms be completed in full prior to submission to the home office and to add provisions which address the responsibility for obtaining errors and omissions insurance.

SUBSEQUENT EVENTS

None.

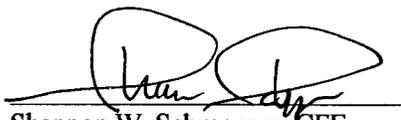
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

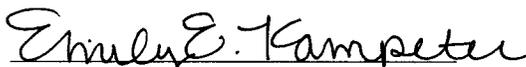
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the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


Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 7th day of June, 2007.

My commission expires:

Nov. 28, 2009


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.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP

**CEDAR COUNTY FARMERS
MUTUAL INSURANCE COMPANY
207 WEST STREET
P. O. BOX 499
Stockton, MO 65785
PH. 417-276-4617 Fax 417-276-6540**

July 26, 2007

Mr. Frederick G. Heese, CFE, CPA
Acting Chief Financial Examiner
State of Missouri
Department of Insurance
P. O. Box 690
Jefferson City, Mo 65102

RECEIVED
JUL 30 2007
INSURANCE SOLVENCY
&
COMPANY REGULATION

Dear Mr. Heese,

We are responding to your letter of July 9, 2007 in regards to our examination report.

We have no objections to our rebuttal being included in the report as a public document.

The general comments and recommendations have three items to be addressed.

The first item in the comments and recommendations deals with our conflict of interest statement. We are going to revise our current conflict of interest statement to accommodate the agents that write for other companies. This new conflict statement will be implemented in 2008.

The second item has to do with corporate records. We will have a sign in sheet at our annual meeting that will have the names of the members that attended the meeting. This will become a part of our permanent records. We will start this at the annual meeting in 2008.

The third item has to do with the territory and plan of operation for revising the agent agreements to clarify that the applications and forms need to be completed in

full and to address the errors and omissions insurance. This will require the board to vote on. We will start the process in August 2007 and have the new agent contracts ready for the 2008 year.

We have not distributed copies of the Examination Report to anyone and will not do so until your department has authorized us.

If you have any questions or problems, please do not hesitate to contact me at the above number and address.

Sincerely,

A handwritten signature in cursive script that reads "Gail Hufferd".

Gail Hufferd
Office Manager