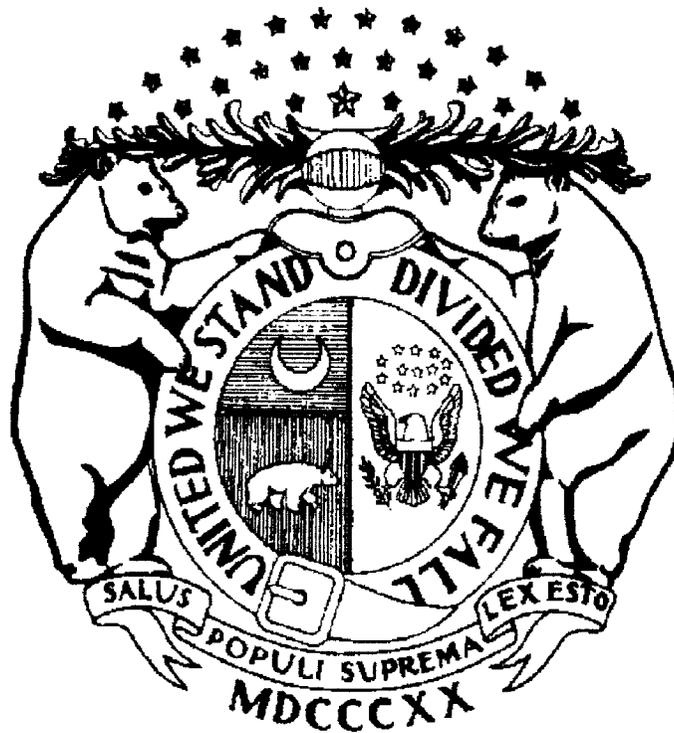


**REPORT OF THE
FINANCIAL EXAMINATION OF
CONCORDIA FARMERS MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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June 6, 2007
Concordia, 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

CONCORDIA FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1202 East 1st Street (P.O. Box 968), Concordia, Missouri 64020, telephone number (660) 463-2223. This examination began on June 4, 2007, and was concluded on June 6, 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

There were no previous examination report comments.

HISTORY

General

The Company was originally organized in 1869 and was incorporated in 1930 as Freedom Farmers Insurance Company. On March 30, 1938, the Company changed its name to Concordia Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated January 1, 1985, 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 third Tuesday in March at the home office of the Company, or at such other place as may be designated

by the Board of Directors. Special meetings of the members may be called at any time and shall be called upon petition of ten percent of the members. Eight 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 six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and directors are compensated \$300 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>
Kenneth Nierman 30148 Emma Road Concordia, Missouri	Farmer	2006-2009
George Zimmerschied 11209 T Highway Higginsville, Missouri	Farm Equipment Manager	2004-2007
Todd Hartley 10 South Brunswick Avenue Marshall, Missouri	Business Owner	2006-2009
Dale Dieckhoff 29829 County Line Road Concordia, Missouri	Retired Information Systems Manager	2004-2007
Edward L. Dysart P.O. Box 621 Marshall, Missouri	Insurance Agent	2006-2009
Dean Eckhoff 15579 Perkins Lane Cole Camp, Missouri	Construction Sales Representative	2005-2008

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:

Kenneth Nierman	Chairman
George Zimmerschied	Vice-Chairman
Wayne Lindemann	President
Cindy Tolias	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. One potential conflict disclosure was noted, which consisted of a director who is also an agent of the Company

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles and Bylaws were amended on July 20, 2004. The amendments to the Articles included updating the name of the registered agent and the street address of the Company. The amendments to the Bylaws included revisions to gender-specific terms.

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 \$125,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$125,000 and \$150,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$3,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company utilizes independent agents, which are required to obtain errors and omissions coverage and provide evidence of such coverage to the Company.

The Company carries property insurance on its home office and contents, automobile liability, business liability, commercial umbrella and workers compensation insurance coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has ten full-time employees. The Company provides group health, life, long-term disability and long-term care insurance to its employees. Employees are also eligible to participate in a 401(k) retirement plan, to which the Company contributes a percentage of each employee's salary. Employees also receive paid vacation and sick leave. 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, wind and liability coverages. The Company's policies are sold by approximately 45 independent licensed agencies, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS, MAMIC, Grinnell Mutual Reinsurance Company and Company-developed policy forms. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are normally performed by employees of the Company, while independent inspector/adjusters may be utilized at the discretion of management.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
2006	\$6,520,269	\$2,587,775	\$4,872,854	\$10,038,923	\$148,284	\$(1,175,209)	\$(894,139)
2005	7,501,327	2,754,609	4,340,858	2,630,729	231,204	579,217	771,132
2004	7,447,688	3,048,773	4,450,499	2,163,101	225,396	(381,463)	(143,004)
2003	7,007,142	2,482,221	4,153,266	3,077,569	252,332	(368,835)	(99,582)
2002	6,871,992	2,270,431	3,684,634	2,541,542	293,997	(618,470)	(201,427)

At year-end 2006, 7,847 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	\$3,684,634	\$4,153,266	\$4,450,499	\$4,340,858	\$4,872,854
Assumed	0	0	0	0	0
Ceded	<u>(318,054)</u>	<u>(350,220)</u>	<u>(400,710)</u>	<u>(454,275)</u>	<u>(820,464)</u>
Net	<u>\$3,366,580</u>	<u>\$3,803,046</u>	<u>\$4,049,789</u>	<u>\$3,886,583</u>	<u>\$4,052,390</u>

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 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 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 5% share in the interests and liabilities of the pool.

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 reinsurance agreement. The individual excess of loss section of the agreement covers wind and fire risks. The Company retains \$300,000 for each loss 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 \$.0423 for fire and \$.0067 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 \$3,270,669 and the annual premium paid was \$.3768 per \$1,000 of adjusted gross fire risks in force.

The agreement also provides for liability risk coverage. The Company cedes 100% of the risk 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 prepares the Annual Statement. The CPA firm of Harden, Cummins, Moss & Miller, LLC, performs an annual audit of the Company's financial statements and prepares the 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	\$ 3,675,681
Stocks (Note 1)	726,809
Real Estate	179,985
Cash on Deposit	1,105,964
Other Investments (Note 1)	149,774
Premium Receivable	401,725
Reinsurance Recoverable on Paid Losses	14,766
Computer Equipment	9,722
Federal Income Tax Recoverable	187,773
Interest Due and Accrued	35,057
Other Assets	33,013

Total Assets	\$ 6,520,269
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Net Losses Unpaid	\$ 63,598
Ceded Reinsurance Premium Payable	41,745
Unearned Premium	2,317,999
Other Liabilities	164,433

Total Liabilities	\$ 2,587,775

Guaranty Fund	\$ 150,000
Other Surplus	3,782,494

Total Surplus	3,932,494

Total Liabilities and Surplus	\$ 6,520,269
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	\$ 3,986,010
Other Insurance Income	253,283
Net Losses & Loss Adjustment Expenses Incurred	(3,788,748)
Other Underwriting Expenses Incurred	(1,625,754)

Net Underwriting Income (Loss)	\$ (1,175,209)

Investment Income	\$ 148,284
Other Income	24,891

Gross Profit (Loss)	\$ (1,002,034)
Federal Income Tax	107,895

Net Income (Loss)	\$ (894,139)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 4,746,718
Net Income (Loss)	(894,139)
Change in Non-Admitted Assets	9,929
Change in Unrealized Investment Gains	69,986

Policyholders' Surplus, December 31, 2006	\$ 3,932,494
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Stocks and Other Investments

The Company included the balance of mutual fund investments of \$726,809 in “Other Investments” on the Annual Statement. As mutual funds are considered stock investments, the balance was reclassified per examination from “Other Investments” to “Stocks”. It is recommended the Company report mutual fund investments as “Stocks” in future Annual Statement filings.

EXAMINATION CHANGES

The reclassification of mutual fund balances from “Other Investments” to “Stocks”, as described in the “Notes to the Financial Statements” section of this report, resulted in a zero net change to policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

Notes to the Financial Statements (Page 8)

It is recommended the Company report mutual fund investments as “Stocks” in future Annual Statement filings.

SUBSEQUENT EVENTS

None.

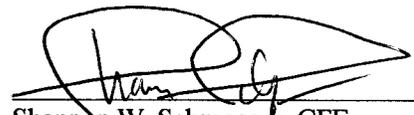
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Concordia 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 26th day of June, 2007.

My commission expires:

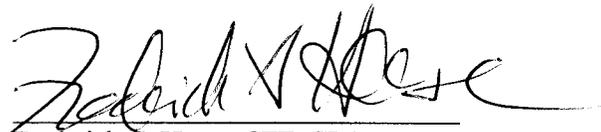
March 4, 2008


Kathryn Randolph
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