STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Colfax Farmers Mutual Insurance Company for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Colfax Farmers Mutual Insurance Company for the period ended December 31, 2011, 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 Colfax Farmers Mutual Insurance Company 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 General Comments 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 18th day of April, 2013.

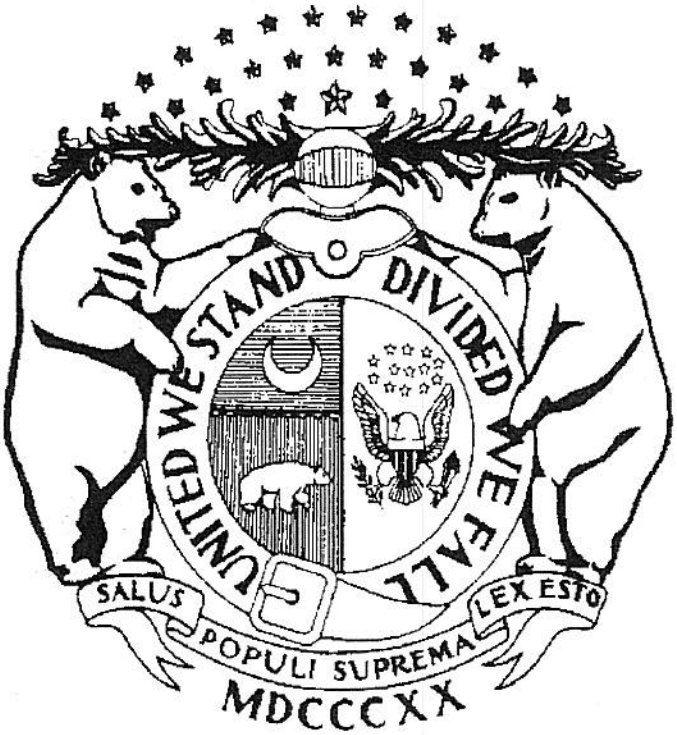
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

COLFAX FARMERS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2011

FILED
APR 18 2013
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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October 4, 2012
Tarkio, 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

COLFAX FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 208 Walnut Street (P.O. Box 248), Tarkio, Missouri 64491, telephone number (660) 736-4919. This examination began on October 1, 2012 and was concluded on October 4, 2012 and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2006, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2007, through December 31, 2011, 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, 2006, 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 draft and approve a written policies and procedures manual that addresses, at a minimum the Company's policies regarding investments, conflict of interest, check signing, inspections, underwriting, claims payments, and job descriptions.

Company Response: A policies and procedures manual has been approved that addresses the areas mentioned, which will be continually reviewed and updated as necessary.

Current Findings: The Company provided the policies and procedures manual approved by the Board of Directors on January 12, 2008, which includes the recommended policies.

HISTORY

General

The Company was originally incorporated on May 10, 1890, as The Farmers Mutual Protective Association of Colfax Township. In 1985, the Company changed its name to Colfax Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated January 24, 2003, 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 second Saturday in April at the home office of the Company or at such place designated by the Board of Directors. Special meetings may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is 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 seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets

approximately every quarter, and directors are compensated $100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2011, were as follows:

Name and Address	Occupation	Term
Larry Irvine Tarkio, Missouri	Farmer	2010-2013
Tom Boatman Rock Port, Missouri	Farmer	2009-2012
Kelly Rohlfsen Tarkio, Missouri	Company Manager	2011-2014
Dave Laur Westboro, Missouri	Farmer	2009-2012
Craig Martin Tarkio, Missouri	Insurance Agent/Realtor	2011-2014
Cecil DeMott Rock Port, Missouri	Farmer	2010-2013
Jess Omohundro Rock Port, Missouri	Farmer	2009-2012

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, 2011, were as follows:

Larry Irvine	President
Tom Boatman	Vice-President
Kelly Rohlfsen	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. In the Conflict of Interest Statements, two directors disclosed they were also agents of the Company. No other potential conflicts were noted.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. At the April 10, 2010 meeting, the membership approved an amendment to the Articles of Incorporation to reduce the number of required Board members from nine to seven. There were no amendments to the Bylaws during the examination period. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. Attendance at the Board and annual membership meetings appeared satisfactory. The minutes and records of the Company appear to properly reflect the 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 $100,000. 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 $2,000,000 and a $5,000 deductible in aggregate for each claim.

The Company purchases errors and omission coverage for the agency that consists of the Company's Secretary/Treasurer and Assistant Secretary/Treasurer. The Company requires all other agents to purchase errors and omissions coverage and provide evidence of such coverage on an annual basis.

The Company also carries property insurance on its home office and contents, as well as business liability and workers compensation insurance. The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees. The Company offers its employees a benefit package which includes life, health, dental and long-term disability insurance, as well as paid vacation and sick leave.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance 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 nine independent agencies, who receive commissions of either 15% or 17% on new business and renewal business based on the terms of Agent Agreement. The Company's Secretary/Treasurer also receives a 5% commission on a book of business that he manages on behalf of the Company.

Policy Forms and Underwriting Practices

The Company uses Grinnell Mutual Reinsurance Company policy forms. The policies are written for a continuous period with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents and the Company Inspector/Adjuster, while adjusting services are performed by the Company Inspector/Adjuster. Independent adjusters are also utilized by the Company during periods of high claim volume.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$1,261,741	$446,611	$934,673	$2,410,357	$19,787	($24,163)	($2,240)
2010	1,249,661	432,291	789,300	220,536	14,656	49,944	64,836
2009	1,110,371	357,837	702,287	327,462	24,325	109,538	136,308
2008	1,047,047	430,821	711,395	272,011	32,654	(48,903)	(8,080)
2007	984,145	359,839	651,863	151,923	39,954	86,258	126,586

At year-end 2011, 1,345 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:

	2007	2008	2009	2010	2011
Direct	$651,863	$711,395	$702,287	$789,300	$934,673
Assumed	0	0	0	0	0
Ceded	(106,848)	(121,316)	(130,690)	(144,307)	(165,758)
Net	$545,015	$590,079	$571,597	$644,993	$768,915

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 property risks. The Company retains $175,000 per occurrence and the reinsurer's limits are $1,000,000 per exposure. 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 aggregate excess section of the agreement covers property 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 2011 was $355,534.

The agreement also provides coverage for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability premium and risk to the reinsurer. The Company 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 CPA firm of Harden, Cummins, Moss & Miller, L.L.C. performs and annual audit 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, 2011, 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, 2011

Bonds	$ 187,543
Real Estate	155,072
Cash on Deposit	852,345
Premium/Assessments/Agent's Balances Uncollected	58,877
Computer Equipment (Hardware Only)	959
Interest Due & Accrued	6,945
Total Assets	$ 1,261,741

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Net Losses Unpaid	$ 3,500
Ceded Reinsurance Premium Payable	14,255
Unearned Premium	411,984
Federal Income Tax Payable	1,917
Payroll Taxes Payable	3,631
Accounts Payable to Agents	6,899
Other Accounts Payable	4,425
Total Liabilities	$ 446,611
Guaranty Fund	$ 150,000
Other Surplus	665,130
Total Surplus	815,130
Total Liabilities and Surplus	$ 1,261,741

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 715,823
Other Insurance Income	40,131
Net Losses & Loss Adjustment Expenses Incurred	(387,926)
Other Underwriting Expenses Incurred	(392,191)

Net Underwriting Income (Loss)	$ (24,163)
Investment Income	19,787
Other Income	5,163

Gross Profit (Loss)	$ 787
Federal Income Tax	(3,027)

Net Income (Loss)	$ (2,240)
	========

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 817,370
Net Income (Loss)	(2,240)

Policyholders' Surplus, December 31, 2011	$ 815,130
	========

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Jackson)

I, Scott L. Rennick 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.

Scott L. Rennick

Scott L. Rennick MBA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 23rd day of January, 2013.

My commission expires:

04-14-2016

Beverly M. Webb

Notary Public

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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, CFE, CPA
Audit Manager
Missouri DIFP