STATE OF MISSOURI

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 Pettis County as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Pettis County for the period ended December 31, 2008, 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 Pettis 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 General Comments and/or Recommendations 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 December 22, 2009

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

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF PETTIS COUNTY

AS OF
DECEMBER 31, 2008

FILED
DEC 22 2009
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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June 30, 2009
Sedalia, 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 PETTIS COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 401 South Lamine Avenue, Sedalia, Missouri 65301, telephone number (660) 826-6964. This examination began on April 27, 2009, and concluded on April 28, 2009, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2003, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, 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, 2003, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Fidelity Bond and Other Insurance

Comment: It was recommended the Company increase its fidelity bond coverage to a minimum of $25,000 for all employees.

Company Response: The Company increased its fidelity bond coverage to $25,000 for all employees.

Current Findings: The Company has complied with the recommendation regarding fidelity bond coverage.

Territory and Plan of Operation

Comment: It was recommended the Company execute a written agreement with its agent, which outlines the responsibilities of the Company and the agent.

Company Response: The Company entered into a written contract with its agent.

Current Findings: The Company currently has a written agreement with its agent, as recommended.

Notes to the Financial Statements

Comment: It was recommended the Company ensure its cash deposits are fully insured in compliance with Section 380.471 RSMo (Approved Investments).

Company Response: The Company allocated its cash deposits among financial institutions to ensure all deposits were fully insured.

Current Findings: The Company's cash deposits were fully insured as of the examination date.

HISTORY

General

The Company was originally organized and incorporated on March 23, 1894, as Farmers Mutual

Fire Insurance Company of Pettis County. On June 18, 1984, the Company changed its name to Farmers Mutual Insurance Company of Pettis County.

The Company has a Certificate of Authority dated September 11, 1996, 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 fourth Saturday 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 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 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 twelve members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated $100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

Name and Address	Occupation	Term
James Westermeir Sedalia, Missouri	Retired	2008-2011
Ralph Thomas Sedalia, Missouri	Farmer	2006-2009
Lloyd Shireman Houstonia, Missouri	Farmer	2006-2009
Thomas Smith Smithton, Missouri	Farmer	2008-2011
Gerald Dove Mora, Missouri	Farmer	2008-2011
J.W. Marlin Sedalia, Missouri	Farmer	2007-2010

Larry Avey Mora, Missouri	Farmer/Electrical Contractor	2007-2010
Lawrence Adams Smithton, Missouri	Farmer	2006-2009
Walter Clark Sedalia, Missouri	Farmer	2006-2009
Richard Mergen Sedalia, Missouri	Farmer	2008-2011
Delmar Cornine Houstonia, Missouri	Farmer	2007-2010
Ronald Bohlken Sedalia, Missouri	Farmer	2007-2010

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, 2008, were as follows:

James Westermeir	President
Ralph Thomas	Vice-President
Clell Furnell	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. A review of the signed statements noted no significant conflict disclosures.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

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 $25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for their directors and officers and purchases errors and omissions insurance coverage for its agent.

The Company also carries general liability and office contents coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees. The Company does not offer a benefits package to its employees.

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. (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 a single licensed agent, who receives a 15% commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by the agent. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2008	$737,585	$1,282	$159,323	$ 21,084	$25,517	$19,144	$ 45,215
2007	692,808	1,720	163,091	65,469	24,144	57,571	82,234
2006	610,682	1,833	167,362	579,248	19,387	(86,208)	(66,814)
2005	677,449	1,781	164,432	39,425	14,363	9,501	23,872
2004	683,642	1,846	171,240	21,084	25,517	19,144	45,215

At year-end 2008, 380 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:

	2004	2005	2006	2007	2008
Direct	$ 171,240	$ 164,432	$ 167,362	$ 163,091	$ 159,323
Assumed	0	0	0	0	0
Ceded	(39,067)	(54,378)	(65,688)	(54,495)	(61,195)
Net	$ 132,173	$ 110,054	$ 101,674	$ 108,596	$ 98,128

Assumed

The Company does not reinsure other companies.

Ceded

The Company utilizes three different outlets for its ceded reinsurance program. For the peril of fire, the Company has reinsurance through Farmers Mutual Reinsurance Company of Missouri (FMRe). For the peril of wind the Company has reinsurance placed by intermediary Guy Carpenter and Company, LLC (Guy Carpenter) with various reinsurers. For casualty risks, the Company has reinsurance through Cameron Mutual Insurance Company (Cameron Mutual).

The reinsurance agreement for the peril of fire with FMRe consists of per risk and annual aggregate excess coverage. Under the per risk section of the agreement, the Company retains \$40,000 on each risk, and the reinsurer is liable for the excess, with risks ceded under the contract limited to \$650,000. Under the annual aggregate section of the agreement, FMRe is liable for all losses exceeding 80% of the Company's annual premium income, with an annual limit of \$1,000,000.

The reinsurance agreements for the peril of wind placed by Guy Carpenter include per risk, catastrophe and aggregate excess of loss agreements. Under the per risk excess of loss agreement, the Company retains \$40,000 per risk and the reinsurers are liable for 100% of the excess, limited to \$490,000 per risk and \$580,000 per occurrence. The catastrophe excess of loss agreement has two layers. Under the first layer, the Company retains \$50,000 per occurrence and the reinsurer is liable for 95% of the excess limited to 95% of \$1,000,000. Under the second layer, the reinsurer is responsible for 100% of losses in excess of \$1,050,000 per occurrence, limited to \$1,000,000. Under the aggregate excess of loss agreement, the reinsurers are liable for 95% of losses in excess of 75% of the Company's earned wind premium income, limited to 95% of \$2,000,000. Participating reinsurers for the wind contracts in 2008 included Arch Reinsurance Company (37.00%), QBE Reinsurance Corporation (25.00%), Aspen Insurance U.K. Limited (14.50%), The Toa Reinsurance Company of America (12.00%), Employers Mutual Casualty Company (6.00%) and Scor Reinsurance Company (5.50%). It was noted that the signature page of the interests and liabilities agreement associated with the reinsurance contracts were not individually signed for this Company. Rather, the participating reinsurers appeared to have signed a single interests and liabilities signature page, which was then copied by the intermediary and attached to numerous Missouri Mutual interests and liabilities agreements. This does not appear appropriate, as these contracts are between this specific Company and the participating reinsurers. It is recommended the Company ensure future interests and liability statements provided by the intermediary are executed by the participating reinsurers exclusively for the Company's reinsurance contracts. All pages of the interests and liabilities agreement, including the signature page, should contain identifying characteristics to ensure they can be recognized as constituting a contract specific to this Company.

The Company appears to have some redundancies in its wind reinsurance program. According to the terms of its reinsurance contracts and calculations provided by its intermediary, the aggregate excess of loss attachment point was approximately \$38,000, which was less than both the per risk retention of \$40,000 and the catastrophe retention of \$50,000. As such, it does not appear likely that the Company would ever collect reinsurance under the per risk or catastophe contracts. It is recommended the Company review the provisions of its wind reinsurance program and amend the contracts to reduce any unnecessary redundancies.

The Company has a liability quota share reinsurance agreement with Cameron Mutual. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% 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 a modified cash basis. The CPA firm of Moore, Horton & Carlson, P.C., performs an annual audit of the Company's financial statements and prepares the Company's annual statements 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, 2008, 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, 2008

Cash	$ 737,485
Asset Write-Ins	100
Total Assets	$ 737,585

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Liability Write-Ins	$ 1,282
Total Liabilities	$ 1,282
Guaranty Fund	$ 150,000
Other Surplus	586,303
Total Surplus	736,303
Total Liabilities and Surplus	$ 737,585

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Assessments Earned	$ 98,128
Net Losses & Loss Adjustment Expenses Incurred	(11,457)
Other Underwriting Expenses Incurred	(67,527)

Net Underwriting Income (Loss)	$ 19,144
Investment Income	25,517
Other Income	554

Gross Profit (Loss)	$ 45,215
Federal Income Tax	(0)

Net Income (Loss)	$ 45,215
	========

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	$ 691,088
Net Income (Loss)	45,215

Policyholders' Surplus, December 31, 2008	$ 736,303
	========

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Reinsurance (Page 7)

It is recommended the Company ensure future interests and liability statements provided by the intermediary are executed by the participating reinsurers exclusively for the Company's reinsurance contracts. All pages of the interests and liabilities agreement, including the signature page, should contain identifying characteristics to ensure they can be recognized as constituting a contract specific to this Company.

It is recommended the Company review the provisions of its wind reinsurance program and amend the contracts to reduce any unnecessary redundancies.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Pettis County 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 14th day of October, 2009.

My commission expires:

Feb 10, 2013

Tammy S Rodieck
Notary Public

TAMMY S. RODIECK
MY COMMISSION EXPIRES
February 10, 2013
NOTARY SEAL
#09751697
COLE COUNTY
NOTARY PUBLIC, 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.

Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP