

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 Sullivan and Adjoining Counties December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Sullivan and Adjoining Counties for the period ended December 31, 2010, 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 Sullivan and Adjoining Counties 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 2nd day of February 2012



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

REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY OF
SULLIVAN AND ADJOINING COUNTIES

AS OF
DECEMBER 31, 2010

FILED
FEB 02 2012
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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November 11, 2011
Milan, Missouri

Honorable John 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 Sullivan and Adjoining Counties

hereinafter referred to as such, or as the "Company". The Company's home and principal place of business is located at 115 S. Market St. (P.O. Box 96), Milan, Missouri 63556 telephone number (660) 265-3596. This examination began on November 7, 2011, and was concluded on November 11, 2011 and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2006, through December 31, 2010, 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

There were no comments, recommendations, or notes of the previous examination report dated December 31, 2005.

HISTORY

General

The Company was organized in February 1896 as Farmers Mutual Insurance Company of Sullivan County, Missouri. On November 22, 1940, the Company reorganized, changed its name to Farmers Mutual Insurance Company of Sullivan and Adjoining Counties, and received a Certificate of Incorporation. On October 27, 2003 the Company received a certificate of authority from the Missouri Department of Insurance and changed to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo).

Management

A board of nine directors provides oversight of the Company. Each director serves a three-year term with three directors elected each year. Directors are elected at annual member meetings held on the first Thursday in March. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Eight members constitute a quorum at annual member meetings. Proxy voting is not addressed in the Articles of Incorporation.

Members serving on the Board of Directors as of December 31, 2010, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Clyde J. Carr, President 16561 Hwy YY Green City, MO 63545	Farmer & Insurance Agent	2009-2012
Melvin Hall, Vice-President 22956 266 th Rd Unionville, MO 63565	Business Owner & Insurance Agent	2010-2013

Carol E. Mino, Secretary/Treasurer 42104 Hwy WW Harris, MO 64645	Secretary/Treasurer of Company/Agent	2010-2013
Randy Kincanon 17268 Hwy 129 Green City, MO 63545	Business Manager & Farmer	2009-2012
Dan Lentz 29981 Highway DD Browning, MO 64630	Farmer	2010-2013
David E. Lentz 33662 Blossom Dr. Browning, MO 64630	Farmer & Insurance Agent	2008-2011
Robert Williams 28616 Bethel Dr. Humphreys, MO 64646	Retired Veteran	2009-2012
John T. Mino 42104 Hwy WW Harris, MO 63645	Farmer & Insurance Agent	2008-2011
Darrin Embree 19580 Galaxy Dr. Green City, MO 63545	MODOT Supervisor	2008-2011

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, 2010, were as follows:

Clyde J. Carr	President
Melvin Hall	Vice-President
Carol E. Mino	Secretary/Treasurer

In addition, Carol E. Mino is the Company manager and an agent.

Conflict of Interest

Signed conflict of interest statements were obtained from all directors. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. The Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged the previous examination report during its October 18, 2006 meeting. Attendance at the Board and annual meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$35,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$25,000 in coverage.

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

The Company carries property coverage on its home office and contents, as well as general liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full-time employee and one part time employee. The Company's manager is also the agent for the Company and is compensated through commissions. The full-time employee receives three weeks paid vacation and sick leave on an as-needed basis. The Company has no retirement plan.

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, windstorm, and liability coverage in Sullivan and surrounding counties. The policies are sold by five licensed producers, who are also directors of the Company. The producers receive a 20% commission on all new business and 15% commission on all other business. The Company advertises in local newspapers and through various promotional activities in the community.

Policy Forms and Underwriting Practices

The Company uses policy forms from the Missouri Association of Mutual Insurance Companies (MAMIC), the American Association of Insurance Services (AAIS) and Grinnell. Inspections are performed by the producers. The Company issues three-year renewable policies. All policies are issued with annual payments, although the policyholder may elect to make semi-annual payments.

Initial fire and wind claim reviews are performed by the producers. All liability claims are adjusted by the reinsurer. The Company uses outside adjusters or inspectors on large claims. Records of claim filings are kept in the policy file and are recorded in the computer claims system. The amount of the loss is determined and the claim paid when proof of loss is received.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2010	\$856,553	\$123,824	\$269,472	\$122,210	\$3,122	\$ 9,067	\$12,189
2009	829,343	123,150	272,362	322,500	18,738	(4,896)	14,963
2008	815,128	129,252	286,024	160,781	30,188	16,477	46,665
2007	774,412	128,146	284,187	55,545	33,760	34,640	68,400
2006	706,042	128,281	273,609	57,045	27,191	62,202	28,273

At year-end 2010, 532 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct	\$ 273,609	\$ 284,187	\$ 286,024	\$ 272,362	\$269,472
Assumed	0	0	0	0	0
Ceded	<u>(108,592)</u>	<u>(82,344)</u>	<u>(81,792)</u>	<u>(67,617)</u>	<u>(63,529)</u>
Net	<u>\$ 165,017</u>	<u>\$ 201,843</u>	<u>\$ 204,232</u>	<u>\$ 204,745</u>	<u>\$ 205,943</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has property and liability reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess plan reinsurance agreement.

The property reinsurance covers fire and wind risks. For the individual occurrence of loss excess reinsurance, the Company retains \$50,000 per loss occurrence and the reinsurer is responsible for 100% in excess of the retention. For the aggregate excess reinsurance, the Company retains \$77,585 per loss occurrence and the reinsurer is responsible for 100% in excess of the retention. The reinsurer has loss limits of \$1,000,000 on losses concerning Livestock/Poultry/Horse operations, Commercial and Public Property, Farm Outbuildings, and Dwellings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. The premiums for the reinsurance are based on the Company's Adjusted Gross Fire Risk in Force. Monthly premiums are calculated at a rate of \$0.5324 per thousand and aggregate excess premiums are calculated at a rate of \$0.1685 per thousand of Adjusted Gross Fire Risk in Force.

The Company has a 100% liability reinsurance contract with Grinnell Mutual Reinsurance Company. The authorized liability lines are farmers comprehensive personal liability, home-guard comprehensive personal liability, comprehensive personal liability, and rented dwelling liability. The Company does not have any retention and receives a 20% ceding commission for the insurance. The rates are set by the reinsurer with rate manual furnished to the Company.

The Company also has a 100% earthquake reinsurance contract with Grinnell Mutual Reinsurance Company. The Company does not have any retention and the ceding commissions are built into the premiums.

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 Company maintains financial records primarily on an automated system. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from Rural Computer Consultants. Claim documentation is kept in the policyholders' files.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm, Van de Ven, LLC, is used to prepare the Company's financial statements, tax returns and annual statement. The annual statement was prepared on an accrual basis and included an unearned premium reserve.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2010, 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, 2010

Real Estate	\$18,403
Cash on Deposit	826,968
Premium/Assessments/Agent's Balances Uncollected	7,154
Reinsurance Recoverable on Paid Losses	907
Interest Due and Accrued	2,003
Prepaid Insurance	1,118

Total Assets	<u><u>\$856,553</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Ceded Reinsurance Premium Payable	\$5,971
Unearned Premium	117,041
Accounts Payable	721
Payroll Taxes Payable	91

Total Liabilities	\$ 123,824

Guaranty Fund	\$ 150,000
Other Surplus	582,729

Total Surplus	732,729

Total Liabilities and Surplus	<u><u>\$856,553</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$ 181,240
Other Insurance Income	10,144
Net Losses & Loss Adjustment Expenses Incurred	(80,393)
Other Underwriting Expenses Incurred	(101,924)

Net Underwriting Income (Loss)	\$ 9,067

Investment Income	\$ 3,122
Other Income	0

Gross Profit (Loss)	\$ 12,189
Federal Income Tax	0

Net Income (Loss)	12,189
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009	\$706,193
Net Income (Loss)	12,189
Mutual Fund Market Adjustment	14,347

Policyholders' Surplus, December 31, 2010	\$732,729
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financials.

EXAMINATION CHANGES

There were no examination changes made during this examination.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations made during this examination.

SUBSEQUENT EVENTS

There were no significant subsequent events.

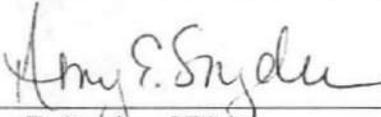
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Sullivan)

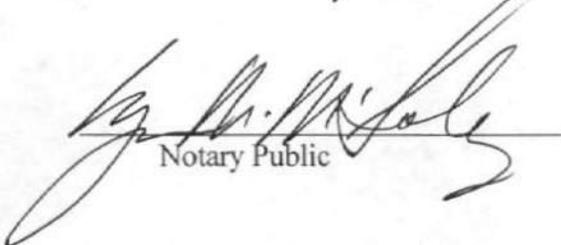
I, Amy E. Snyder on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony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



Amy E. Snyder, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 21st day of Nov, 2011.

My commission expires:
7-15-2013



Notary Public

LYNN M. MCSORLEY
Notary Public - Notary Seal
STATE OF MISSOURI
Commissioned for St. Louis City
My Commission Expires 7/15/2013
Commission # 09838073

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.



Michael Shadowens, CFE
Examiner In Charge
Missouri DIFP