

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 Fire Insurance Company of Platte County as of
December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Fire Insurance Company of Platte County for the period ended December 31, 2009, 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 Fire Insurance Company of Platte 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 20th Day of April, 2011.

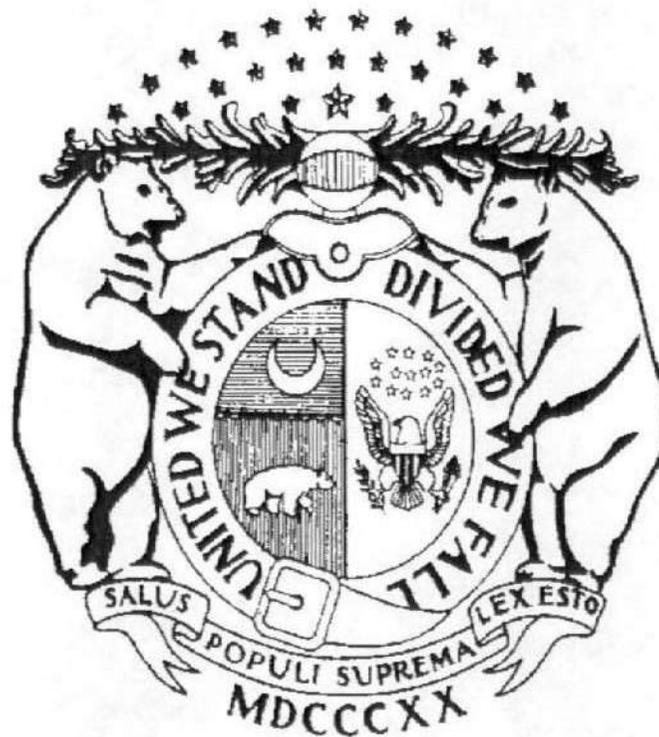


A handwritten signature in black ink, appearing to read "John M. Huff".

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

REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL FIRE INSURANCE COMPANY OF
PLATTE COUNTY

AS OF
DECEMBER 31, 2009



FILED
APR 20 2011
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	3
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	6
Ceded	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
GENERAL COMMENTS AND/OR RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

January 13, 2011
Platte City, 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 FIRE INSURANCE COMPANY OF PLATTE COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 257 Main Street (P.O. Box 2480), Platte City, Missouri 64079, telephone number (816) 858-2521. This examination began on January 12, 2011, and concluded on January 13, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior review of CPA report in lieu of an examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, 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, 2004, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management Agreement

Comment: It was recommended the Company adopt a written management agreement with the Miller-Donnelli Agency, Inc. ("Agency") that outlines the relationship between the Company and the Agency, including the duties and responsibilities of each party under the arrangement. As the Agency also provides the producer function for the Company, the agreement should also address this arrangement.

Company Response: The Company has not implemented a management agreement with the agency.

Current Findings: The Company has not implemented the recommended management agreement with the Agency (see the Territory and Plan of Operations section of this report).

Deposit Insurance

Comment: It was recommended the Company closely monitor deposit levels at financial institutions and either limit such deposits to the FDIC insurance coverage limits or obtain additional bond coverage for any deposits in excess of the FDIC coverage.

Company Response: The Company changed its practices to ensure adequate insurance coverage of cash deposits.

Current Findings: The Company maintained adequate insurance coverage of cash deposits during the exam period.

HISTORY

General

The Company was originally organized and incorporated on March 24, 1892, as Farmers Mutual Fire Insurance Company of Platte County, Missouri. Effective September 22, 2005, the Company converted to an Extended Missouri Mutual Insurance Company.

The Company has a Certificate of Authority dated September 22, 2005, 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 last Saturday in February 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 addressed in the organizational documents.

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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets annually and as needed, and the directors are compensated \$500 per year.

Members serving on the Board of Directors as of December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Kenneth Kisker Platte City, Missouri	Farmer	2009-2012
Jack Coots Platte City, Missouri	Banker	2007-2010
Michael Roberts Weston, Missouri	Farmer	2007-2010
Gary Anderson Weston, Missouri	Farmer	2007-2010
Grundy Newton Platte City, Missouri	Retired Educator	2008-2011
Larry Furbeck Dearborn, Missouri	Farmer	2007-2010
Tom Ode Platte City, Missouri	Farmer	2008-2011

Carl M. Myers Weatherby Lake, Missouri	Medical Doctor	2009-2012
Jean D. Deal Camden Point, Missouri	Farmer	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, 2009, were as follows:

Kenneth Kisker	President
Jean D. Deal	Vice-President
Dorothy Donnelly	Secretary
Theodore Wilson	Treasurer
Christopher Donnelly	Assistant Secretary

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 material potential conflicts disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended on February 26, 2005, to expand the Company's authorized operating area from Platte and the surrounding counties to statewide. The change was to facilitate the Company's conversion to an Extended Missouri Mutual Insurance Company. The Bylaws were not amended during the examination period.

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 \$50,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$75,000. It is recommended the Company increase its fidelity bond coverage to a minimum of \$75,000.

The Company carries liability coverage for their directors and officers. The Company's sole agency carries errors and omissions insurance. The Company also carries general liability and property insurance on its home office and contents.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has no employees. Company operations are performed under a management arrangement with an insurance agency (see the Territory and Plan of Operations section of the examination report).

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 and wind coverages. The Company's policies are marketed by a single agency, which is owned and operated by the Company's Secretary and Assistant Secretary. The agency also manages the operations of the Company. Under the arrangement, the agency receives a monthly fee, which is approved annually by the Board of Directors, and a 15% commission for its role as the Company's agent. The Company does not have a written management and agency agreement in place which governs the current arrangement. It is recommended the Company enter into a written agreement with its agency, which addresses the duties and responsibilities of each party under the arrangement. Terms to be addressed should include, but not be limited to, management fees, any cost sharing arrangements, time limits for delivery of fully completed insurance applications to the home office, responsibility for errors and omissions insurance and commission rates.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies have a five year term. Property inspections are performed by the agent. Independent adjusters perform claims adjusting functions. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2009	\$3,755,909	\$ 296,920	\$556,964	\$ 212,606	\$127,529	\$ 90,093	\$ 185,176
2008	3,652,634	286,281	544,810	141,075	139,344	141,255	243,587
2007	3,328,982	290,406	533,399	156,216	141,338	127,307	230,803
2006	3,108,779	296,653	533,102	174,298	126,592	94,700	192,394
2005	2,900,203	284,344	535,906	64,891	93,513	136,328	229,841

At year-end 2009, 844 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 535,906	\$ 533,102	\$ 533,399	\$ 544,810	\$556,964
Assumed	0	0	0	0	0
Ceded	(119,738)	(96,838)	(106,717)	(89,302)	(95,321)
Net	<u>\$ 416,168</u>	<u>\$ 436,264</u>	<u>\$ 426,682</u>	<u>\$ 455,508</u>	<u>\$ 461,643</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer). The individual occurrence of loss and aggregate excess sections of the agreement cover property risks. Under the individual occurrence of loss section of the agreement, the Company retains \$50,000 per risk and the reinsurer is liable for the excess, limited to \$1,000,000 per risk. Under the aggregate excess section of the agreement, 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 2009 was \$226,136.

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 firm of R. Scott Stephens, CPA, 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, 2009, 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, 2009

Bonds (Note 1)	\$ 716,336
Stocks	1,500
Real Estate	5,783
Cash on Deposit	2,988,759
Premium Uncollected	4,239
Computer Equipment	1,545
Federal Income Tax Recoverable	5,554
Interest Due and Accrued	31,671
Asset Write-Ins	522

Total Assets	<u><u>\$ 3,755,909</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2009

Net Unpaid Losses	\$ 9,130
Reinsurance Premiums Payable	8,234
Unearned Premiums	278,656
Liability Write-Ins	900

Total Liabilities	\$ 296,920

Guaranty Fund	\$ 150,000
Other Surplus	3,308,989

Total Surplus	3,458,989

Total Liabilities and Surplus	<u><u>\$ 3,755,909</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2009

Net Assessments Earned		\$ 456,265
Net Losses & Loss Adjustment Expenses Incurred		(217,601)
Other Underwriting Expenses Incurred		(148,571)

Net Underwriting Income (Loss)		\$ 90,093
Investment Income		127,529

Gross Profit (Loss)		\$ 217,622
Federal Income Tax		(32,446)

Net Income (Loss)		\$ 185,176
		=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2009

Policyholders' Surplus, December 31, 2008		\$ 3,276,353
Net Income (Loss)		185,176
Examination Adjustment for Miscellaneous Prior Years' Errors (Note 2)		(2,540)

Policyholders' Surplus, December 31, 2009		\$ 3,458,989
		=====

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

The Company reported a US Treasury Bills balance of \$685,998 in the 2009 Annual Statement on Schedule N – Cash and carried the balance forward to the balance sheet as “Other Investments.” These investments are more appropriately reported as “Bonds.” An examination change was made to reclassify this balance to “Bonds.” It is recommended the Company report treasury bill balances on Schedule D – Part 1 – Bonds and as “Bonds” on the balance sheet in future Annual Statement filings.

Note 2 – Miscellaneous Surplus Adjustments

The beginning policyholder surplus value used by the Company in the “Gain or Loss in Surplus” reconciliation on Page 5 of the Annual Statements filed during the exam period failed to match the ending policyholder surplus value per the prior year Annual Statement balance sheets. The examiners were unable to identify the exact source of the discrepancy. The cumulative effect of the reporting errors required an examination adjustment decreasing the prior year surplus by \$2,540. The Company should ensure the beginning policyholder surplus value reported in the “Gain or Loss in Surplus” reconciliation on Page 5 of the Annual Statement is equal to the ending policyholder surplus per the balance sheet of the prior year Annual Statement in future filings.

EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2009		\$ 3,458,989
	Increase in Surplus	Decrease in Surplus
Bonds	\$ 685,998	\$ 0
Other Investments	0	(685,998)
	-----	-----
Total Change	<u>\$ 685,998</u>	<u>\$ (685,998)</u>
Total Policyholder Surplus Per Examination, December 31, 2009		<u>\$ 3,458,989</u>

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance (Page 5)

It is recommended the Company increase its fidelity bond coverage to a minimum of \$75,000.

Territory and Plan of Operation (Page 5)

It is recommended the Company enter into a written agreement with its agency, which addresses the duties and responsibilities of each party under the arrangement. Terms to be addressed should include, but not be limited to, management fees, any cost sharing arrangements, time limits for delivery of fully completed insurance applications to the home office, responsibility for errors and omissions insurance and commission rates.

Notes to the Financial Statements (Page 10)

It is recommended the Company report treasury bill balances on Schedule D – Part 1 – Bonds and as “Bonds” on the balance sheet in future Annual Statement filings.

The Company should ensure the beginning policyholder surplus value reported in the “Gain or Loss in Surplus” reconciliation on Page 5 of the Annual Statement is equal to the ending policyholder surplus per the balance sheet of the prior year Annual Statement in future filings.

SUBSEQUENT EVENTS

None.

