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 Adair County for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Adair County for the period ended December 31, 2013, 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 Adair 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 Summary 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 26th day of June, 2015.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF ADAIR COUNTY

AS OF
DECEMBER 31, 2013

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

Subject	Page
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	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	5
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Assets	8
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
SUMMARY OF RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

January 30, 2015
Kirksville, 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 ADAIR COUNTY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 1312 North Baltimore, Kirksville, Missouri 63501, telephone number (660) 665-6205. This examination began on December 17, 2014, and was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2008, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2009, through December 31, 2013, 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, 2008, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Accounts and Records

Comment: Effective June 30, 2009, 20 CSR 200.12.020 will require that no more than 5% of surplus be invested in any one mutual fund and no more than 10% of surplus be invested in mutual funds in total. The Company currently exceeds both of these limitations and was reporting them incorrectly as bonds. The Company was directed to adjust its investment mix to comply with this regulation or to request approval from the DIFP to exceed the investment limitations.

Company Response: The Company agreed to an orderly liquidation of the mutual funds over three years to bring the investments into compliance.

Current Findings: As of December 31, 2013, the Company reported mutual funds which exceeded the limitations of the regulation by $39,484. The Company properly reported this excess as a non-admitted asset.

Notes to the Financial Statements

Comment: The Company should include mutual funds in the Stock account on future Annual Statements.

Company Response: The Company agreed to report mutual funds on the proper schedule in future Annual Statement filings.

Current Findings: The Company has properly reported its mutual fund holdings on all subsequent Annual Statement filings during the examination period.

HISTORY

General

The Company was originally organized on May 8, 1894, and incorporated on October 7, 1939, as Farmers Mutual Insurance Company of Adair County. The Company has a Certificate of Authority dated June 17, 1991 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 Wednesday in February at the home office of the Company or at such other place and time 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 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 seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets at least annually, and the directors are compensated $100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2013, were as follows:

Name and Address	Occupation	Term
Ann Walker Kirksville, Missouri	Agent/Office Manager	2013-2016
Jim Forquer Kirksville, Missouri	Inspector/Adjustor	2013-2016
Gary Ledford Kirksville, Missouri	Construction	2013-2016
Donna Lou Broadwell Novinger, Missouri	Teacher	2011-2014
Larry Smith Novinger, Missouri	Retired/Farmer	2011-2014
Duane Turner LaPlata, Missouri	Retired	2012-2015
Tammy Grgurich Novinger, Missouri	Agent/Employee	2012-2015

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, 2013, were as follows:

Larry Smith	President
Duane Turner	Vice-President
Ann Walker	Secretary/Treasurer
Tammy Grgurich	Asst. 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 executed conflict of interest statements noted no material potential conflicts disclosed.

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 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 meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agents.

Other insurance coverages carried by the Company include property insurance on the home office and contents and commercial liability insurance.

EMPLOYEE BENEFITS

The Company has three full-time employees. Two of the employees are also agents and the other is an inspector and adjuster. The Company provides health insurance for the employees and spouses and long-term disability insurance for the employees. The employees receive paid vacation, paid holidays, and paid sick leave. The Company also makes an annual contribution to each employee's individual retirement account.

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. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri and writes all three lines.

The Company's policies are sold by three agents, who receive a 12% commission.

Policy Forms and Underwriting Practices

The Company mainly utilizes AAIS forms, as well as some forms of their reinsurer, Wisconsin Reinsurance Corporation, and the policies are continuous. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by the Company's full-time inspector/adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2013	$1,136,483	$373,827	$834,105	$ 228,964	$ 20,520	$ (28,408)	$ (6,531)
2012	1,114,914	337,069	949,658	451,423	28,771	(32,468)	(969)
2011	1,121,586	339,002	919,075	754,946	35,444	(191,708)	(152,849)
2010	1,333,135	377,730	877,921	325,972	36,273	(114,301)	(82,511)
2009	1,313,135	270,150	802,892	1,632,365	40,659	(176,097)	(140,079)

At year-end 2013, 1,060 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:

	2009	2010	2011	2012	2013
Direct	$ 802,892	$ 877,921	$ 919,075	$ 949,658	$ 834,105
Assumed	0	0	0	0	0
Ceded	(249,326)	(283,124)	(348,752)	(366,399)	(327,257)
Net	$ 553,566	$ 594,797	$ 570,323	$ 583,259	$ 506,848

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for property and casualty risks. The agreement includes per risk excess and aggregate excess of loss coverage for property risks and quota share coverage for casualty risks.

Under the per risk excess of loss coverage, the Company retains $55,000 per property risk, and the reinsurer's limit is $545,000 per property risk. Under the aggregate excess of loss coverage, the Company's annual aggregate net retention, or attachment point, is equal to 70% of net written premium. The reinsurer is responsible for 100% of losses in excess of this attachment point. The estimated attachment point for 2013 was $577,122.

Under the casualty quota share section of the agreement, the Company cedes 100% of the casualty risks and premium to the reinsurer and receives a 25% 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 utilizes Rural Computer Consultants, Inc. software for general ledger, claims reports and policy maintenance. The Company also maintains paper copies of its accounting and policy records. The CPA firm of Van de Ven, LLC, performs an annual financial statement compilation 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, 2013, 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.

ASSETS
December 31, 2013

Bonds	$ 389,509
Mutual Funds	76,352
Real Estate	124,111
Cash on Deposit	522,590
Federal Income Tax Recoverable	1,217
Interest Due and Accrued	2,074
Ceded Reinsurance Receivable	17,479
Prepaid Insurance	3,151
Total Assets	$ 1,136,483

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Net Losses Unpaid	$ 92,000
Ceded Reinsurance Premium Payable	277,396
Payroll Tax	4,431
Total Liabilities	$ 373,827
Guaranty Fund	$ 150,000
Other Surplus	612,656
Total Surplus	762,656
Total Liabilities and Surplus	$ 1,136,483

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	$ 529,166
Other Insurance Income	26,613
Net Losses & Loss Adjusting Expenses Incurred	(269,375)
Other Underwriting Expenses Incurred	(314,812)
Net Underwriting Income (Loss)	$ (28,408)
Net Investment Income	20,520
Other Income	1,860
Gross Profit (Loss)	$ (6,028)
Federal Income Tax	(503)
Net Income (Loss)	$ (6,531)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	$ 777,845
Net Income (Loss)	(6,531)
Current Year Decrease in Admitted Mutual Funds	(3,095)
Unrealized Loss on Investments	(5,563)
Policyholders' Surplus, December 31, 2013	$ 762,656

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

I, Jay Buschmann 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.

J. Buschmann

Jay Buschmann, AFE
Financial Examiner/Analyst
Missouri DIFP

Sworn to and subscribed before me this 19th day of May, 2015.

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

My commission expires:

04-14-2016

B M Webb

Notary Public

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 – Kansas City
Missouri DIFP