



**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 Daviess 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 Daviess 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 Daviess 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

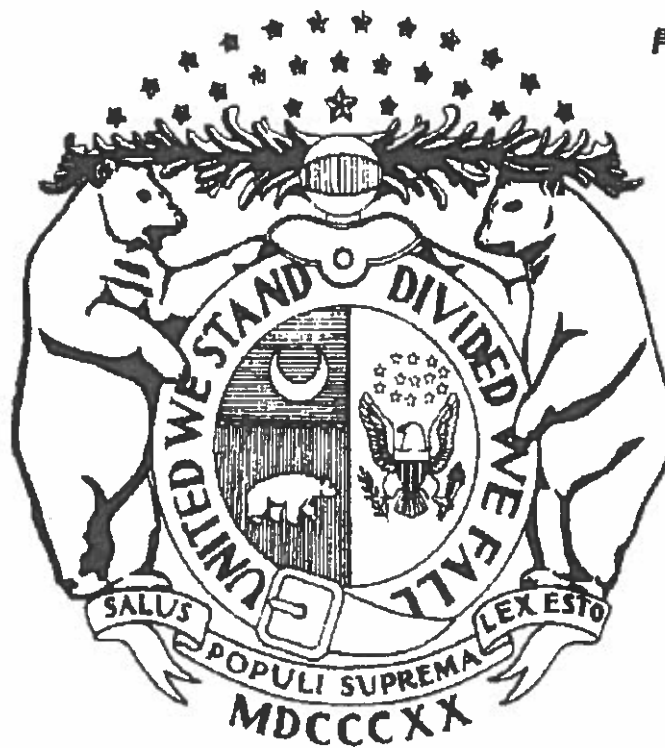
**REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY
OF DAVIESS COUNTY**

**AS OF
DECEMBER 31, 2013**

FILED

JUN 26 2015

**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>
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	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
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
SUMMARY OF RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

February 23, 2015
Gallatin, 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 DAVIESS COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 204 East Corrine, PO Box 72, Gallatin, Missouri 64640, telephone number (660) 663-3514. This examination began on February 18, 2015, and 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.

Mutual Funds

Comment: It was recommended the Company adjust its investment portfolio regarding mutual fund investments to comply with limitations of 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). In addition, it was recommended the Company ensure mutual fund investment balances be reported as "Stocks" in future Annual Statement filings.

Company Response: The Company agreed to reduce mutual fund investments in order to comply with the regulation and to properly report the amounts in the future.

Current Findings: The Company's current investment in mutual funds is within the limitations of the regulation, and the reported balances are properly classified.

Accounts and Records

Comment: It was recommended the Company disclose both the gross losses unpaid and the offsetting reinsurance recoverable balances to arrive at net losses unpaid on future annual statement filings.

Company Response: The Company agreed to follow this procedure in the future.

Current Findings: The Company's current reporting of losses unpaid complies with the required format.

HISTORY

General

The Company was incorporated on December 15, 1891, as Patrons' Home Protection Company of Daviess County, Missouri. Under reorganization procedures dated December 15, 1911, the name was changed to Farmers Mutual Fire and Lightning Insurance Company of Daviess County, Missouri. The Articles of Incorporation were amended June 17, 2004, to change the name to Farmers Mutual Insurance Company of Daviess County.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Monday in March, at the home office of the Company. 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. Ten 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 approximately every month. Directors are compensated \$125 per each meeting attended.

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

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Stephen Reed Breckenridge, Missouri	Farmer	2016
Judy Hiley Altamont, Missouri	Retired Teacher	2014
Kenneth Lockridge Jamesport, Missouri	Insurance Agent	2014
Sharon Lockridge Jamesport, Missouri	Insurance Agent	2015
Robert Bird Gallatin, Missouri	Farmer	2015
Tim Osborn Gallatin, Missouri	Maintenance Supervisor	2016
Steve Stout Jamesport, Missouri	Mail Carrier	2016

The Board of Directors elect, for a term of one year, a President, a Vice-President, a Secretary/Treasurer, and an Assistant Secretary/Treasurer. The officers of the Company serving at December 31, 2013, were as follows:

Stephen Reed
Judy Hiley
Kenneth Lockridge
Sharon Lockridge

President
Vice-President
Secretary/Treasurer
Assistant 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, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles 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. In addition, the Company's policies for investments and underwriting were reviewed. 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 insurance for its directors and officers and errors and omissions insurance for its agents.

The Company self-insures its home office property and purchases general liability insurance coverage from an outside carrier.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees. The employees receive paid time off and no additional benefits.

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. The Company writes fire, wind and liability insurance. The Company's policies are sold by two licensed agents from an agency operating from the home office. Agents receive a commission of 14% on new and renewal business.

Policy Forms and Underwriting Practices

The Company uses mainly AAIS policy forms, as well as forms from their reinsurer, and policies are written on a continuous basis. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company's Office Manager. An independent adjuster is utilized for major or complex claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<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>
2013	\$1,552,917	\$ 0	\$333,416	\$ 53,423	\$ 6,681	\$ 33,440	\$ 40,897
2012	1,532,870	0	320,089	181,372	13,339	18,858	33,548
2011	1,530,422	31,100	312,429	105,223	30,246	(25,587)	4,659
2010	1,504,581	14,421	312,995	226,443	33,682	(53,034)	(18,640)
2009	1,515,051	6,250	327,882	254,119	38,670	(37,798)	1,254

At year-end 2013, 519 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:

	2013	2012	2011	2010	2009
Direct	\$333,416	\$320,089	\$312,429	\$312,995	\$327,882
Assumed	0	0	0	0	0
Ceded	(99,916)	(76,089)	(66,355)	(70,341)	(73,763)
Net	\$ 233,500	\$244,000	\$246,074	\$242,654	\$254,119

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single reinsurance agreement. The agreement includes first occurrence, individual occurrence, aggregate and facultative coverage for property losses, and quota share coverage for liability risks.

Under the first occurrence and individual occurrence of loss sections of the agreement, the Company retains \$50,000 for each individual property loss, and the reinsurer is responsible for 100% of losses in excess of the retention.

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 loss ratio, plus a negotiated load. The reinsurer is liable for 100% of the property losses in excess of this retention. The attachment point for 2013 was \$151,433.

The risks ceded under the above-noted coverages are limited by the reinsurer to \$1,000,000 per exposure, with the exception of farm machinery and equipment storage buildings which are limited to \$2,000,000 per exposure. Under the facultative reinsurance section of the agreement, the Company may cede property risks that exceed these individual risk limits. Rates are determined by the reinsurer on an individual basis.

The contract has a quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and 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 a modified cash basis. The Company utilizes a combination of paper files and packaged software systems for policy maintenance. The CPA firm of Lockridge, Constant & Conrad, LLC performs a compilation of the Company's financial statements and prepares the annual statement filing.

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	\$ 365,038
Mutual Funds	126,013
Cash on Deposit	1,059,014
Interest Due & Accrued	<u>2,852</u>
Total Assets	<u>\$ 1,552,917</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

Net Losses Unpaid	\$ 0
Net Loss Adjusting Expenses Unpaid	<u>0</u>
Total Liabilities	<u>\$ 0</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>1,402,917</u>
Total Surplus	<u>\$ 1,552,917</u>
Total Liabilities and Surplus	<u>\$ 1,552,917</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2013

Net Premiums Earned	\$ 233,500
Other Insurance Income	0
Net Losses & Loss Adjusting Expenses Incurred	(45,188)
Other Underwriting Expenses Incurred	<u>(154,872)</u>
Net Underwriting Income (Loss)	\$ 33,440
Net Investment Income	6,681
Other Income	<u>776</u>
Gross Profit (Loss)	\$ 40,897
Federal Income Tax	<u>(0)</u>
Net Income (Loss)	<u>\$ 40,897</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2013

Policyholders' Surplus, December 31, 2012	\$ 1,532,870
Net Income (Loss)	40,897
Change in Market Value of Mutual Funds	(10,508)
Prior Year Adjustment	<u>(10,342)</u>
Policyholders' Surplus, December 31, 2013	<u>\$ 1,552,917</u>

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 Daviess 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.

My commission expires:

04-14-2016

Beverly M. Webb
Notary Public

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12484070



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
Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP