

**REPORT OF
FINANCIAL EXAMINATION**

**FARMERS MUTUAL FIRE INSURANCE
COMPANY OF GENTRY COUNTY**

**AS OF
DECEMBER 31, 2005**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
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	2
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	6
Ceded	7
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS:	
Analysis of Assets	9
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
GENERAL COMMENTS AND/OR RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

August 8, 2006
Albany, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
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 GENTRY COUNTY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 114 South Smith (P.O. Box 157), Albany, Missouri, telephone number (660) 726-3310. This examination began on June 12, 2006, and was concluded on June 13, 2006, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

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 Missouri Department of Insurance 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, 2000, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Corporate Records

Comment: It was recommended that the Board of Directors set forth the Company's investment, signature of checks and claims payment policies in written form.

Company Response: The Company revised its procedures manual during the examination period to address investment, signature of checks and claims payment policies.

Current Findings: The Company's procedures manual adequately addresses the operations and business of the Company.

HISTORY

General

The Company was organized on February 19, 1890 and incorporated on April 21, 1891, as Farmers Mutual Fire Insurance Company of Gentry County.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 first Tuesday 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. The Articles do not

address the quorum requirements of membership meetings. Proxy voting is allowed provided the voting is done by a member, and the proxy is filed with the Secretary not less than twenty days prior to any meeting at which the proxy is to be voted.

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 approximately every other month, and directors are compensated \$75 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
G. Ivan Wilson 503 West Putnam King City, Missouri	Retired Farmer	2004-2007
Rick Rainey 5527 State Highway Z King City, Missouri	Farmer/Seed Salesman	2004-2007
Bob Quinn 5102 320 th Road Albany, Missouri	Farmer	2004-2007
Donald Grantham 4326 257 Street Ravenwood, Missouri	Farmer/Insurance Agent	2005-2008
Kenneth McGinley 2747 530 th Road Albany, Missouri	Farmer	2005-2008
Tim Gardner 3385 572 Road Albany, Missouri	Farmer/ Government Employee	2005-2008
David Stevens 5668 295 th Street Albany, Missouri	Soil Conservation Official	2003-2006

Harold Peterson
319 North Locust
Stanberry, Missouri

Retired Farmer

2003-2006

M.L. McCrea, Jr.
5572 Berlin Road
Maysville, Missouri

Farmer

2003-2006

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board. The President receives compensation of \$300 per year.

The officers of the Company serving at December 31, 2005, were as follows:

Donald Grantham
M.L. McCrea, Jr.
Marci Sager

President
Vice-President
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 material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made to the Articles of Incorporation or Bylaws 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 \$37,500. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated

by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$1,000 deductible in aggregate for each claim.

The Company carries errors and omissions liability coverage for its agents with an aggregate limit of \$1,000,000 and a \$1,000 deductible for each claim.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full-time employee and two part-time employees. The Company provides the full-time employee two to three weeks of paid vacation per year, depending upon years of service. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 three licensed agents, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. Homeowner policies are written on a three year term, while fire and extended coverage policies are written on a five year term. Rates are determined by the Board of Directors.

Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the agents.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$842,607	\$140,085	\$626,863	\$617,638	\$25,949	\$(92,546)	\$(64,778)
2004	970,349	203,048	467,778	1,697,276	25,614	(203,071)	(175,758)
2003	1,028,684	85,626	418,603	155,429	32,913	86,855	121,365
2002	909,703	87,909	396,223	186,557	39,352	8,977	50,502
2001	882,347	111,056	369,529	235,007	46,112	(40,331)	8,489

At year-end 2005, 920 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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$369,529	\$396,222	\$418,603	\$467,778	\$626,863
Assumed	0	0	0	0	0
Ceded	<u>(256,571)</u>	<u>(254,850)</u>	<u>(38,811)</u>	<u>(125,336)</u>	<u>(186,971)</u>
Net	<u>\$112,958</u>	<u>\$141,372</u>	<u>\$379,792</u>	<u>\$342,442</u>	<u>\$439,892</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by

MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 1% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$35,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$135,000 and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$185,000 for commercial and confinement risks and \$385,000 for all other risks. The 2005 premium rate, as a percentage of written premiums, equaled 8.90% for layer one and 2.00% for layer two.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$125,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,125,000, and the reinsurer's limit is 100% of \$2,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$4,000,000 for the second layer. The 2005 premium rate was \$.1858 and \$.1500 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 80% of the Company's net written premium. Annual losses ceded under the contract are limited to \$2,000,000. The 2005 reinsurance rate was 8.4% of written premium.

The contract has a liability quota share section for liability risks. 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 an accrual basis. The Company's CPA firm, Marsh, Espey & Riggs, performs financial statement compilation, annual statement preparation and tax preparation services for the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, 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, 2005

Real Estate	\$ 1,001
Cash on Deposit	803,329
Other Investments	14,933
Premium Receivable	16,756
Reinsurance Recoverable on Paid Losses	1,455
Computer Equipment	112
Interest Due and Accrued	5,021

Total Assets	\$ 842,607
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2005

Losses Unpaid	\$ 34,683
Ceded Reinsurance Payable	10,405
Unearned Premium	90,828
Liability Write-Ins	4,169

Total Liabilities	\$ 140,085

Guaranty Fund	\$ 150,000
Other Surplus	552,523

Total Surplus	\$ 702,523

Total Liabilities and Surplus	\$ 842,607
	=====

STATEMENT OF INCOME
December 31, 2005

Net Premium	\$ 431,658
Other Insurance Income	583
Net Losses Incurred	(368,843)
Other Underwriting Expenses	(155,944)

Net Underwriting Income (Loss)	\$ (92,546)

Investment Income	\$ 25,949
Other Income	1,819

Gross Income (Loss)	\$ (64,778)
Federal Income Tax	0

Net Income (Loss)	\$ (64,778)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2005

Policyholders' Surplus, December 31, 2004	\$ 767,301
Net Income (Loss)	(64,778)

Policyholders' Surplus, December 31, 2005	\$ 702,523
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Fire Insurance Company of Gentry 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.

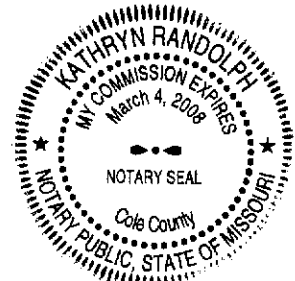

 Shannon W. Schmoeger, CFE
 Financial Examiner
 Missouri Department of Insurance

Sworn to and subscribed before me this 9th day of August, 2006.

My commission expires:

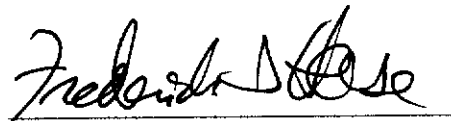
March 4, 2008


 Kathryn Randolph
 Notary Public



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.


 Frederick G. Heese, CFE, CPA
 Audit Manager – Kansas City
 Missouri Department of Insurance