

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 Daviess County as of
December 31, 2008

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, 2008, 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 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 30th day of November 2009.



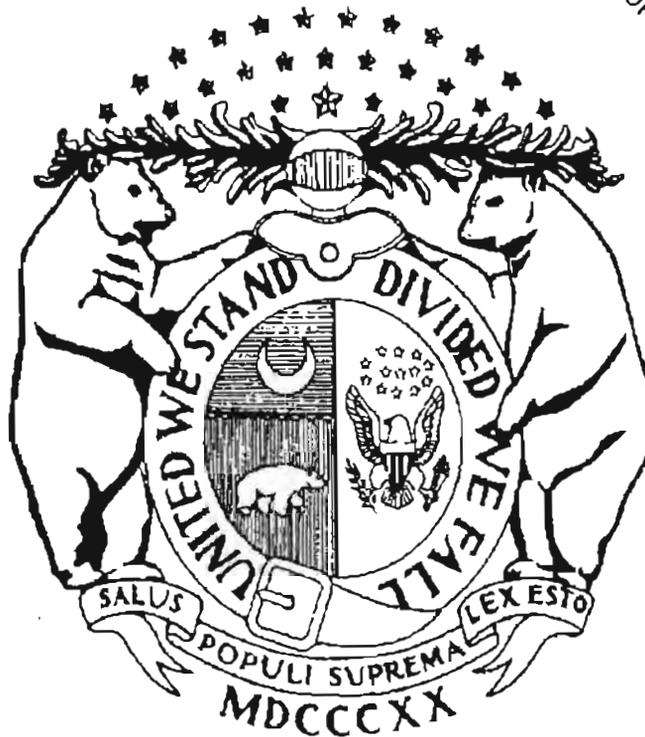
A handwritten signature in black ink, appearing to read "John M. Huff".

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

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

AS OF
DECEMBER 31, 2008

FILED
NOV 30 2009
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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June 24, 2009
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 June 1, 2009, and concluded on June 4, 2009, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2003, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, 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

None.

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 \$150 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Kenneth Lockridge Jamesport, Missouri	Agent	2008-2011
Sharon Lockridge Jamesport, Missouri	Agent	2009-2012
Anne Bell Winston, Missouri	Retired	2009-2012

Tim Osborn Gallatin, Missouri	Maintenance Supervisor	2007-2010
Steve Stout Jamesport, Missouri	Mail Carrier	2007-2010
Stephen Reed Breckenridge, Missouri	Farmer	2007-2010
Judy Hiley Altamont, Missouri	Retired	2008-2011

The Board of Directors elect, for a term of one year, a President, a Vice-President and a Secretary/Treasurer who is a salaried employee of the Company. The officers of the Company serving at December 31, 2008, were as follows:

Stephen Reed	President
Judy Hiley	Vice-President
Kenneth Lockridge	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. The Articles of Incorporation were amended June 17, 2004, to allow the Company to provide the insurance authorized by Chapter 380 RSMo "Extended Missouri Mutual Insurance Companies." Pursuant to the change in the Articles of Incorporation, the Certificate of Authority was amended June 17, 2004, to permit the Company to write fire, wind and liability coverages in all counties in the state of Missouri. The Articles of Incorporation were also amended January 11, 2008, to change the number of required directors from nine to seven.

The Bylaws were amended and restated March 12, 2004. Changes included allowing the offices of Secretary and Treasurer to be combined, authorizing the Secretary or Treasurer to singularly sign Company checks, requiring agents to obtain errors and omissions insurance and encouraging agents to write insurance to value, and requiring the Board of Directors to set salaries, fees, bonuses and director compensation annually at the January Board of Directors meeting.

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 \$25,000. The fidelity bond coverage of the company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$3,000,000 and a \$2,500 loss deductible.

The Company purchases errors and omissions insurance for its agents with an aggregate liability limit of \$1,000,000.

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 two weeks of paid vacation per year and sick leave within a reasonable limit.

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, wind and liability insurance. The Company's policies are sold by a licensed agent and an agency. Agents receive a commission of 40% on the first year of a three year policy.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are renewed every three years. Rates are determined by the Board of Directors. Annual 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 losses.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$1,545,046	\$37,500	\$321,282	\$ 50,588	\$ 6,774	\$ 62,055
2007	1,456,641	11,150	308,663	57,508	65,101	130,427
2006	1,323,264	8,200	336,009	146,374	(57,300)	(4,348)
2005	1,334,762	15,350	319,968	47,969	10,489	56,447
2004	1,262,965	0	306,544	179,085	(83,080)	(47,075)

At year-end 2008, there were 548 policies in force.

REINSURANCE

General

The Company's premium and reinsurance activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct	\$321,282	\$308,663	\$336,009	\$319,968	\$306,544
Assumed	0	0	0	0	0
Ceded	<u>(76,376)</u>	<u>(69,385)</u>	<u>(114,465)</u>	<u>(105,455)</u>	<u>(110,596)</u>
Net	<u>\$ 244,906</u>	<u>\$239,278</u>	<u>\$221,544</u>	<u>\$214,513</u>	<u>\$195,948</u>

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 contains individual occurrence, aggregate and facultative coverage for property losses and quota share coverage for liability risks. Under the individual occurrence of loss section of the agreement, the Company retains \$37,500 for each individual property loss occurrence, and the reinsurer is responsible for losses in excess of the retention limited to \$1,000,000 per exposure.

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 2008 was \$119,256.

Under the facultative reinsurance portion of the agreement, the Company may cede property risks to the reinsurer that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

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 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 Company maintains its records on an accrual basis. L. Dean Reno, CPA, prepares the tax filings and assists with preparation of the Annual Statement. Annual audits of the Company's financial statements had been performed prior to 2007. An annual audit was not performed for the years 2007 and 2008.

Effective June 30, 2009, 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments) limits an extended Missouri mutual's investment in any individual mutual fund to 5% of the mutual's total surplus. At December 31, 2008, the Company's investment in the American Fund U.S. Government Securities Fund A exceeded this limit. The Company is directed to adjust its investment portfolio regarding mutual fund investments to comply with 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments).

At December 31, 2008, the Company reported only the net losses unpaid rather than the gross losses unpaid and offsetting reinsurance recoverable as required by the Annual Statement format. It is 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.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, 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, 2008

Stocks (Note 1)	\$ 96,919
Cash on Deposit (Note 1)	1,443,255
Computer Equipment	4,872

Total Assets	\$ 1,545,046
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Losses Unpaid	\$ 37,500

Total Liabilities	\$ 37,500

Guaranty Fund	\$ 150,000
Other Surplus	1,357,546

Total Surplus	1,507,546

Total Liabilities and Surplus	\$ 1,545,046
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Assessments Earned	\$ 244,906
Net Losses & Loss Adjustment Expenses Incurred	(80,354)
Other Underwriting Expenses Incurred	(157,778)

Net Underwriting Income (Loss)	\$ 6,774
Investment Income	53,484
Other Income	1,797

Gross Profit (Loss)	\$ 62,055
Federal Income Tax	0

Net Income (Loss)	\$ 62,055
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	\$ 1,445,491
Net Income (Loss)	62,055

Policyholders' Surplus, December 31, 2008	\$ 1,507,546
	=====

NOTES TO FINANCIAL STATEMENTS

Note 1 – Stocks, Cash on Deposit

The Company included mutual funds with a statement value of \$96,919 in the “Cash on Deposit” line of the 2008 Annual Statement. Mutual funds are considered stock investments for reporting purposes and thus should be reported in the “Stocks” account on the Annual Statement. An examination change was made to reclassify the mutual fund balance of \$96,919 from the “Cash on Deposit” account to the “Stocks” account. The Company should ensure mutual fund investment balances are reported as “Stocks” in future Annual Statement filings.

EXAMINATION CHANGES

The sole examination change, as described above, resulted in the reclassification of mutual fund balances of \$96,919 from the “Cash on Deposit” to the “Stocks” account. The reclassification did not affect the total policyholder surplus balance.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Accounts and Records (Page 7)

The Company is directed to adjust its investment portfolio regarding mutual fund investments to comply with 20 CSR 200-12.020 (Extended Missouri Mutual Companies’ Approved Investments).

It is 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.

Notes to Financial Statements (Page 10)

The Company should ensure mutual fund investment balances are reported as “Stocks” in future Annual Statement filings.

SUBSEQUENT EVENTS

None.

Farmers Mutual Insurance Company Gallatin, Missouri

Ken Lockridge, Secretary

Office: 660-663-3314

FAX: 660-663-3117

email: kdlock@windstream.net

November 9, 2009

Tammy Rodieck, Exam Coordinator
Missouri Department of Insurance
301 West High Street
Jefferson City, MO 65102-0690

Dear Tammy,

This letter is in response to the draft of our Financial Examination conducted as of December 31, 2008.

Adjustment of investment portfolio:

Upon receipt of the report, action was taken to reduce investments in mutual funds to comply with 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). A copy of the statement reflecting this action is attached. Future investments will be monitored to assure compliance.

Disclosure of the gross losses unpaid and the offsetting reinsurance recoverable balances to arrive at net losses unpaid:

On future annual statements, this procedure will be followed.

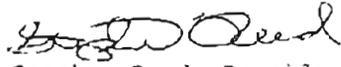
Reporting mutual fund investment balances as "Stocks" in future filings:

On future annual statements, this procedure will be followed.

We have no reservations of this response being included in the report as a public document.

Thank you for bringing these conditions to our attention.

Respectfully,



Stephen Reed, President
Farmers Mutual Insurance Company of Daviess County
204 E. Corrine
P.O. Box 72
Gallatin, MO 64640

SR/kl