

REPORT OF  
FINANCIAL EXAMINATION

**Farmers Mutual Insurance Company  
of Marion County**

As of:

December 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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May 24, 2007  
Palmyra, MO

Honorable Douglas M. Ommen, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

**Farmers Mutual Insurance Company of Marion County**

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 621 South Main Street, Palmyra, Missouri 63461; telephone number (573) 769-4615. This examination was conducted at the home office in Palmyra, Missouri. The examination began May 21, 2007, and concluded May 24, 2007.

**SCOPE OF EXAMINATION**

Period Covered

The Company was last examined by the Department of Insurance, Financial Institutions and Professional Registration in 2002 for the year ending December 31, 2001. The current examination covers the period from January 1, 2002, through December 31, 2006, and was conducted by an examiner from the Department of Insurance, Financial Institutions and Professional Registration.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri. Information obtained from the Company's accountant was utilized to the extent deemed appropriate.

Comments – Previous Examination

There were no general comments or recommendations made in the previous examination report.

## HISTORY

### General

The Company was organized on October 1, 1907, as the Farmers Mutual Insurance Association of Marion County. On November 19, 1917, the Company filed for incorporation. The Company changed its name to Farmers Mutual Insurance Company of Marion County on January 15, 1981.

The Company has a Certificate of Authority dated December 1, 2003, and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

### Management and Control

A board of seven directors, who meet monthly, provides oversight of the Company. Each director serves a three-year term. Directors are elected at annual membership meetings held on the fourth Thursday in January. The board of directors may call special meetings of the membership at any time or upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting.

The directors receive \$125 compensation for each meeting attended and may receive additional compensation for extraordinary meetings attended. The offices of president, secretary/treasurer and assistant secretary/assistant treasurer receive small monthly compensation amounts.

The board of directors consisted of the following members as of December 31, 2006, holding the offices indicated:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
Dennis Keim, President 5176 County Road 403 Hannibal, MO 63401	Farmer / Agent	2004 to 2007
Robert Kruse, Vice President 6433 County Road 258 Hannibal, MO 63401	Contractor / Agent	2004 to 2007
David Moss, Secretary / Treasurer 7551 County Road 225 Monroe City, MO 63456	Farmer / Agent	2005 to 2008
Tina Bridgeman, Assistant Secretary / Assistant Treasurer 374 County Road 109 Ewing, MO 63440	U.S.D.A. / Agent	2006 to 2009
James Behring 315 W. Church Street Palmyra, MO 63461	Retired	2006 to 2009

Brian Obert  
6795 County Road 320  
Palmyra, MO 63461

Coop Manager / Agent 2006 to 2009

Jason Plunkett  
3195 County Road 173  
Philadelphia, MO 63463

Farmer / Agent 2004 to 2007

### Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors, officers and key employees. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during the examination.

### Corporate Records

Articles of incorporation, Bylaws, and minutes from the annual membership meetings and board meetings were reviewed. The Company amended its Articles of Incorporation and Bylaws in 2003 when it converted from a Part I to a Part II mutual. The Company is following the guidelines established in the articles of incorporation and bylaws. The board meeting minutes indicated that the board is adequately informed regarding the Company's operations. The board formally acknowledged receipt of the previous Department of Insurance, Financial Institutions and Professional Registration report of examination during its meeting on July 16, 2002. Attendance at the board and annual membership meetings appears to be satisfactory.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company has a fidelity bond totaling \$200,000 from Old Republic Surety Company. This meets the minimum amount recommended by the National Association of Insurance Commissioners for a company of this size and complexity.

MAMIC Mutual Insurance Company provides directors and officers liability coverage, with an aggregate limit of \$2,000,000. MAMIC Mutual Insurance Company also provides each agent with errors and omissions coverage. The Company requires at least \$300,000 aggregate coverage, however most agents carry more than this amount.

The Company has a property and general liability policy for its home office from Grinnell Mutual Reinsurance Company with a limit of \$270,000 for the building, \$40,000 for contents and \$1,000,000 per occurrence for general liability. Employees are also covered by a workers compensation policy from Grinnell Mutual Reinsurance Company.

## EMPLOYEE BENEFITS AND PENSION PLANS

The Company has two full-time and one part-time employee. Vacation, holidays, sick time and medical insurance are provided. The Company has also implemented a SEP IRA plan and contributes 6% of the employee's gross pay into the plan.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed by the Department of Insurance, Financial Institutions and Professional Registration to operate under the provisions of Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage throughout Missouri, but concentrates mainly in Marion and surrounding counties.

The Company's policies are marketed by seven captive agents. The agents receive a 15% commission on all business produced.

### Policy Forms and Underwriting Practices

The Company uses policy forms supplied by Grinnell Mutual Reinsurance Company. Policies are written for continuous one-year terms. Inspections are performed by the agents and are completed on all new applications. Inspections are then completed every five years.

Agents are authorized to settle claims of \$1,000 or more if Company approval has been received. Otherwise, an independent adjuster will handle the adjusting of the claim. Grinnell Mutual Reinsurance Company will assist with larger claims. Payment is made after a satisfactory signed proof of loss is received.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2006	2005	2004	2003	2002
Admitted Assets	\$3,303,459	\$3,316,009	\$3,086,948	\$3,061,536	\$3,168,658
Liabilities	\$508,604	\$578,420	\$422,014	\$373,742	\$341,474
Gross Assessment / Premium	\$875,905	\$841,294	\$710,867	\$596,323	\$498,883
Losses Incurred	\$503,914	\$444,651	\$486,714	\$427,845	\$230,872
Investment Income	\$138,180	\$112,789	\$109,639	\$121,242	\$154,632
Underwriting Income	\$(79,278)	\$(40,107)	\$(141,510)	\$(264,460)	\$(58,879)
Net Income	\$57,265	\$72,655	\$(22,859)	\$(139,391)	\$90,273
Policies In Force	2,018	1,904	1,805	1,697	1,564

These figures are based on data from annual statements provided by the Company. There has been a steady increase in the number of policies in force each year. Tornado losses caused the adverse results in 2003.

## REINSURANCE

### Assumed

None.

### Ceded

The Company has reinsurance with Grinnell Mutual Reinsurance Company. In force business is reinsured by the following agreement:

***Aggregate Excess Reinsurance*** The reinsurer covers 100% of losses in excess of the Company's retention limit. The retention limit is a calculated amount that includes, but is not limited to, the Company's ten-year average fire loss ratio, gross fire risks in force and a load factor. The agreement requires larger risks (per schedule) to be submitted on a facultative basis. The Company's retention amount for 2006 was \$603,885 with an associated annual premium rate of \$0.3337 per \$1,000 of gross fire risk in force.

***Organizational Agreement*** The Company has a cooperative agreement with Grinnell Mutual Reinsurance Company for farm and personal liability coverage. The Company cedes 100% of the liability to Grinnell and receives a 20% commission for writing the business.

## ACCOUNTS AND RECORDS

The Company maintains policyholder and financial records on a mutual insurance company software package from IMT Computer Sales of Des Moines, Iowa. The accounting records are maintained by the Company on a cash basis and converted to an accrual basis by the Company's CPA for annual statement purposes.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006, 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, and therefore were only noted in the workpapers for each individual annual statement item.

### ADMITTED ASSETS

Bonds	\$ 1,752,784
Real Estate	179,682
Cash on Deposit	1,292,224
Other Investments	43,210
Computer Equipment	9,347
Interest Due and Accrued	23,900
Prepaid Insurance	<u>2,312</u>
<b>Total Assets</b>	<b><u>\$ 3,303,459</u></b>

### LIABILITIES, SURPLUS AND OTHER FUNDS

Gross Losses Unpaid (Note 1)	\$ 43,483
Gross Loss Adjustment Expenses Unpaid (Note 1)	1,392
Ceded Reinsurance Premium Payable (Note 2)	13,829
Unearned Premium	430,605
Federal Income Tax Payable	3,650
Accounts Payable to Agents	10,450
Accounts Payable - Other (Note 2)	2,915
Taxes Payable	<u>2,280</u>
<b>Total Liabilities</b>	<b>\$ 508,604</b>
Guaranty Fund	150,000
Other Surplus	<u>2,644,855</u>
<b>Total Policyholder Surplus</b>	<b><u>\$ 2,794,855</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$ 3,303,459</u></b>

## STATEMENT OF INCOME

Net Earned Assessment / Premium Income	\$ 766,853
Other Insurance Income	5,715
Net Losses & Loss Adjustment Expense	(536,404)
Underwriting Expenses	<u>(315,442)</u>
<b>Net Underwriting Income (Loss)</b>	<b>\$ (79,278)</b>
Net Investment Income	138,180
Other Income	8,513
Gross Profit or (Loss)	67,415
Federal Income Tax	<u>(10,150)</u>
<b>Net Profit or (Loss)</b>	<b><u>\$ 57,265</u></b>

## CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2005	\$ 2,737,589
Net Profit or (Loss)	57,265
Examination Changes (Net)	<u>-</u>
<b>Policyholder Surplus, December 31, 2006</b>	<b><u>\$ 2,794,854</u></b>

## NOTES TO FINANCIAL STATEMENTS

<b>Note 1 Gross Losses Unpaid</b>	<b>\$43,483</b>
<b>Gross Loss Adjustment Expense Unpaid</b>	<b>\$1,392</b>

Unpaid adjusting expenses of \$1,392 were reported as unpaid losses. An adjustment is necessary to reclassify the \$1,392 to the appropriate line, Gross Loss Adjustment Expense Unpaid.

<b>Note 2 Ceded Reinsurance Premium Payable</b>	<b>\$13,829</b>
<b>Accounts Payable – Other</b>	<b>\$2,915</b>

The Company reported \$873 of miscellaneous payables as ceded reinsurance premium payable. These payables are better reported as other accounts payable. An adjustment is necessary to reclassify the \$873.

## EXAMINATION CHANGES

None.

## GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

## SUBSEQUENT EVENTS

None.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the directors, officers and employees of the Farmers Mutual Insurance Company of Marion County in the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri)

) ss

County of St. Louis)

I, Karen J. Milster, 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 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 examiner finds reasonably warranted from the facts.

*Karen Milster*

Karen J. Milster, CPA, CFE  
Financial Examiner  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 29 day of May, 2007.

My commission expires:

7-7-09

*[Handwritten Signature]*

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.

*Christiana Dugopolski*

Christiana Dugopolski, CPA, CFE  
Audit Manager  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration