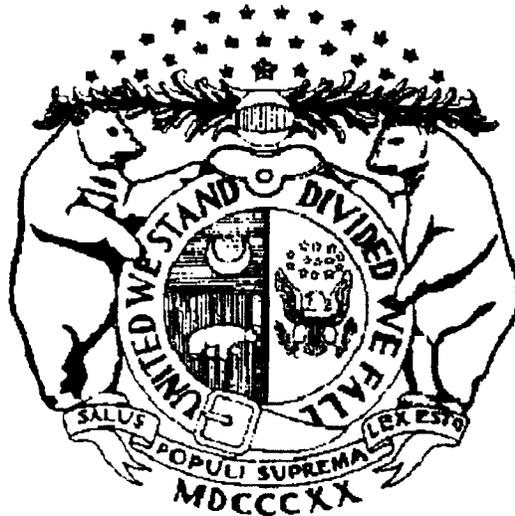


REPORT OF
FINANCIAL EXAMINATION

**Farmers Mutual Insurance Company
of Ste. Genevieve County**

As of:

December 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
SALUTATION	2
SCOPE OF EXAMINATION	2
PERIOD COVERED	2
PROCEDURES	2
COMMENTS – PREVIOUS EXAMINATION	2
HISTORY	3
GENERAL	3
MANAGEMENT AND CONTROL	3
CONFLICT OF INTEREST	4
CORPORATE RECORDS	5
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS AND PENSION PLANS	5
INSURANCE PRODUCTS AND RELATED PRACTICES	5
TERRITORY AND PLAN OF OPERATIONS	5
POLICY FORMS AND UNDERWRITING PRACTICES	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE	6
ASSUMED.....	6
CEDED.....	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS	7
ASSETS.....	8
LIABILITIES, SURPLUS AND OTHER FUNDS	8
STATEMENT OF INCOME	9
CAPITAL AND SURPLUS ACCOUNT	9
NOTES TO FINANCIAL STATEMENTS	9
EXAMINATION CHANGES	10
GENERAL COMMENTS AND/OR RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT	11
VERIFICATION	11
SUPERVISION	11

May 11, 2007
Ste. Genevieve, MO

Honorable Douglas M. Ommen, Director
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 Ste. Genevieve County

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 169 Linn Drive, Ste. Genevieve, Missouri 63670; telephone number (573) 883-3520. This examination was conducted at the home office in Ste. Genevieve, Missouri. The examination began May 7, 2007, and concluded May 11, 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.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. **Comment:** Previous Examination Report

It is recommended that the Company adopt written procedures regarding the location of owners of unclaimed property and the filing of Unclaimed Property reports.

Company Response: The board of directors will establish a program for the location of the true owner of the unclaimed property. If unclaimed property owners are unable to be located, the procedures for the company will be to comply with the state's unclaimed property report and file the necessary forms with the state of Missouri at the appropriate time.

Current Findings: The Company has implemented basic procedures to research outstanding checks.

2. **Comment:** Previous Examination Report

It is recommended that the Company develop an agent's contract, which includes items such as agent binding authority, the timely delivery of an application to the home office and agent commission rates.

Company Response: The board will establish a procedure for the drafting of the necessary agent's contracts which will include binding authority agreements and discuss a manual related to the timely delivery of applications to the home office. These applications and contracts will outline applicable commission rates and the payment terms.

Current Findings: The Company has developed a Producer's Contract that contains the items recommended.

HISTORY

General

The Company was organized February 16, 1890, as The Farmers Mutual Fire Insurance Company of Ste. Genevieve County. The Company changed its name to Farmers Mutual Insurance Company of Ste. Genevieve County in May of 1985.

The Company has a Certificate of Authority dated March 25, 2002, approving it to operate as a Part II mutual and is operating under the provisions of Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

Management and Control

A board of seven directors provides oversight of the Company. Each director serves a three-year term. Directors are elected at annual membership meetings held on the second Saturday in March. The board of directors may call special meetings of the membership at any time or upon

petition of one-fourth of the membership. Eight members shall constitute a quorum at any membership meeting.

The management of the Company is vested in the board of directors who meets quarterly. The directors receive \$80 compensation for each meeting attended and may receive additional compensation for extraordinary meetings attended. The offices of president and vice-president receive small monthly compensation amounts.

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

Name/Address	Occupation	Term
Milton Donze, President 23635 Donze Road St. Mary, MO 63673	Agent	2004 to 2007
John Flieg, Vice-President 11070 State Rt. A Ste. Genevieve, MO 63670	Agent	2005 to 2008
Kim Fischer, Secretary / Treasurer 19157 Eisenbeis Btm. Ste. Genevieve, MO 63670	Secretary – Farmers Mutual Insurance Company of Ste. Genevieve County	2004 to 2007
John Adams 13503 New Church Road Ste. Genevieve, MO 63670	Agent and MFA Employee	2006 to 2009
Paul Brischle 13996 New Offenburg Road Ste. Genevieve, MO 63670	Agent and Postmaster	2005 to 2008
Eugene Coffman 21764 State Rt. N St. Mary, MO 63673	Agent and Farmer	2006 to 2009
Marilyn Wibbenmeyer 875 Biltmore Street Ste. Genevieve, MO 63670	Retired	2006 to 2009

Conflict of Interest

Signed conflict of interest statements have not been obtained annually from all directors. The statements that were prepared did not disclose any known conflicting situations and no apparent conflicts of interest were identified during the examination. The Company should ensure that

conflict of interest statements are prepared each year by every director. The board meeting minutes should document when this action occurs.

Corporate Records

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 and attendance at the board and annual membership meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company has a fidelity bond totaling \$40,000 from Western Surety Company. This falls short of the \$50,000 minimum amount recommended by the National Association of Insurance Commissioners for a company of this size and complexity. The Company should increase its fidelity bond coverage to at least \$50,000.

MAMIC Mutual Insurance Company provides directors' and officers' liability coverage, with an aggregate limit of \$750,000. MAMIC Mutual Insurance Company also provides each agent with errors and omissions coverage, with an aggregate limit of \$750,000.

The Company has a commercial general liability policy with Grinnell Mutual Reinsurance Company, with an aggregate limit of \$600,000.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has two part-time office employees. Employees are awarded paid vacation and sick leave based on the amount of service with the Company. The Company also observes and pays employees for bank holidays.

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 Ste. Genevieve and surrounding counties.

The Company's policies are marketed by five agents, receiving a commission of 12% of gross premium.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by the American Association of Insurance Services and 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 three years.

Company agents adjust most property losses. Outside adjusters may be utilized to assist with larger claims. Grinnell Mutual Reinsurance Company does the adjusting for liability claims. Payment is made after a satisfactory signed proof of loss is received.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Admitted Assets	\$1,811,520	\$1,726,619	\$1,565,288	\$1,472,484	\$1,338,975
Liabilities	\$16,489	\$71,083	\$26,281	\$41,384	\$5,594
Gross Assessments	\$681,034	\$674,139	\$520,012	\$505,655	\$478,964
Losses Incurred	\$276,520	\$172,284	\$194,710	\$167,084	\$153,169
Investment Income	\$73,147	\$49,791	\$40,670	\$40,940	\$43,057
Underwriting Income	\$43,832	\$89,255	\$56,661	\$57,395	\$73,221
Net Income	\$112,673	\$135,380	\$100,940	\$92,833	\$111,161
Policies In Force	1,227	1,248	1,215	1,202	1,130

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. The Company has shown a net profit during all years under examination.

REINSURANCE

Assumed

The Company does not assume any business.

Ceded

The Company cedes reinsurance through various agreements with Grinnell Mutual Reinsurance Company as follows:

First Occurrence of Loss Excess The Company retains \$37,500 per occurrence and the reinsurer's limit is also \$37,500 per occurrence. First occurrence of loss premium rates are calculated based on net recoveries paid by the reinsurer, with minimum rates of \$0.2563 and a maximum rate of \$1.5532 per \$1,000 of adjusted gross fire risk in force.

Individual Occurrence of Loss The Company retains \$75,000 per occurrence. The annual premium charge is \$0.4297 per \$1,000 of adjusted gross fire risk in force.

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 \$281,587 with an associated annual premium rate of \$0.3509 per \$1,000 of gross fire risk in force.

Comprehensive Personal Liability The reinsurer covers 100% of all liability losses with a 20% ceding commission paid to the Company.

ACCOUNTS AND RECORDS

The Company maintains policyholder and financial records on the COMPASS software package from Rural Computers Consultants, Inc. The accounting records are maintained by the Company on a cash basis and converted to an accrual basis by the Company's CPA, Van de Ven, LLC, 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

Stocks (Note 1)	\$	-
Cash on Deposit		1,358,361
Reinsurance Recoverable on Paid Losses		51,169
Computer Equipment		1,950
Interest Due and Accrued		6,654
Due from Ste. Genevieve County Agency (Note 2)		645
Total Assets	\$	<u>1,418,779</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Ceded Reinsurance Premium Payable	\$	15,205
Federal Income Tax Payable		184
Accounts Payable		1,100
Total Liabilities	\$	<u>16,489</u>
Guaranty Fund		\$150,000
Other Surplus		1,252,290
Total Policyholder Surplus	\$	<u>1,402,290</u>
Total Liabilities and Surplus	\$	<u>1,418,779</u>

STATEMENT OF INCOME

Net Earned Assessment / Premium Income	\$ 476,198
Other Insurance Income	15,416
Net Losses & Loss Adjustment Expense	(281,855)
Underwriting Expenses	<u>(165,927)</u>
Net Underwriting Income (Loss)	\$ 43,832
Investment Income	73,147
Other Income	2,758
Gross Profit or (Loss)	119,737
Federal Income Tax	<u>(7,064)</u>
Net Profit or (Loss)	<u>\$ 112,673</u>

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2005	\$ 1,655,536
Net Profit or (Loss)	112,673
Unrealized Gain on Marketable Securities	26,822
Examination Changes (Net)	<u>(392,741)</u>
Policyholder Surplus, December 31,2006	<u>\$ 1,402,290</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 Stocks

\$0

The Company invested in unauthorized securities without the necessary approvals from the Department of Insurance, Financial Institutions and Professional Registration. An adjustment of \$392,741 was made to nonadmit these unauthorized securities. If the Company desires to continue with these investments, approval should be sought.

Note 2 Due from Ste. Genevieve County Agency

\$645

The Company loaned Ste. Genevieve County Agency \$600 to begin operations. The Company reported the loan as Stocks on the asset page of the Annual Statement. The Company is not a shareholder of Ste. Genevieve County Agency. The \$600 has been reclassified to report it as a receivable.

EXAMINATION CHANGES

Total Policyholder Surplus per 2006 Annual Statement:			\$1,795,031
	<u>Increase In</u>	<u>Decrease In</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Non-Admitted Stocks (Note 1)		(392,741)	
Net Increase / (Decrease) in Surplus			(392,741)
Total Policyholder Surplus per 2006 Examination			<u>\$1,402,290</u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS

History - Conflict of Interest

Page 4

Signed conflict of interest statements have not been obtained annually from all directors. The Company should ensure that conflict of interest statements are prepared each year by every director.

Fidelity Bond and Other Insurance

Page 5

The Company has a fidelity bond totaling \$40,000 from Western Surety Company. This falls short of the \$50,000 minimum amount of coverage recommended by the National Association of Insurance Commissioners for a company of this size and complexity. The Company should increase its fidelity bond coverage to at least \$50,000.

SUBSEQUENT EVENTS

There were no significant subsequent events.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Farmers Mutual Insurance Company of Ste. Genevieve 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 14 day of May, 2007.

My commission expires:

8/21/2010

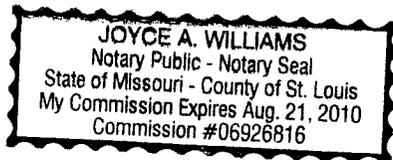
Joyce Williams
Notary Public

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



FARMERS MUTUAL INSURANCE CO.

169 Linn Drive • Ste. Genevieve, Missouri 63670
(573) 883-3520
Fax: (573) 883-3520

Missouri Department of Insurance
Financial Institutions and Professionalism Registration
Attention: Fred Heese, Acting Division Director
301 West High Street, Room 530
Jefferson City MO 65101

RECEIVED

JUL 02 2007

INSURANCE SOLVENCY
&
COMPANY REGULATION

June 27, 2007

Dear Mr. Heese,

I have received the draft of the audit performed on our Farm Mutual, Farmers Mutual Of Ste. Genevieve County.

We will abide by the suggestion made by the auditor:

1. conflict of interests will be signed annually by all board members
2. fidelity bond has been increased to \$50,000
3. non admitted assets are currently being moved to approved investments

I look forward to receiving the final audit to be distributed and reviewed by our board of directors.

Thank you,



Milton Donze
President

MD/kf

