

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

**AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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July 3, 2007
Marshfield, Missouri

Honorable Douglas M. Ommen, 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 WEBSTER COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 209 South Crittenden (P.O. Box 96), Marshfield, Missouri 65706, telephone number (417) 859-2033. This examination began on July 2, 2007, and was concluded on July 3, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2001, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2002, through December 31, 2006, 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, 2001, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Financial Statements

Comment: The Company was directed to ensure that investments and payable items are properly classified on the Annual Statement.

Company Response: The Company has taken the necessary steps to ensure the proper reporting of items on the Annual Statement balance sheet.

Current Findings: The Company appeared to properly classify investment and payable items on the Annual Statements filed during the examination period.

Comment: The Company was directed to ensure that its guaranty fund is calculated and reported in accordance with Section 380.271 RSMo. (Guaranty Fund Required).

Company Response: The Company has taken the necessary steps to ensure the proper calculation

and reporting of the guaranty fund on the Annual Statement.

Current Findings: The Company appeared to properly calculate and report the guaranty fund on the Annual Statements filed during the examination period.

HISTORY

General

The Company was originally organized in 1906, and was incorporated on January 8, 1907, as Farmers Mutual Fire Insurance Company of Webster County. In 1977, the Company changed its name to Farmers Mutual Insurance Company of Webster 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 Insurance 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 third Saturday in November at the home office of the Company or at such place designated by the Board of Directors. 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 five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2006, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Ken Carter 4438 South Ridgecrest Springfield, Missouri	Retired	2005-2008
Larry Johnston 330 Howard Avenue Niangua, Missouri	Electrical Contractor	2005-2008
W. Kerry Proctor 103 North Clay Marshfield, Missouri	Insurance Agent	2004-2007
John Wingo 11571 State Highway B Rogersville, Missouri	Farmer	2004-2007
Jackie Freeman 122 East 1 st Street Mountain Grove, Missouri	Insurance Agent	2006-2009

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2006, were as follows:

Ken Carter
Larry Johnston
Jan George

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. No conflicts of interest were disclosed in the statements.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. There were no amendments to the Articles of Incorporation or the 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 \$100,000. 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 directors and officers liability coverage with an aggregate limit of \$2,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company requires its agents to purchase errors and omissions coverage and provide evidence of such coverage on an annual basis.

The Company also carries property insurance on its home office and contents, as well as business liability and workers compensation insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time and two part-time employees. The Company provides the full-time employees with life and health insurance and paid vacation. Both the full and part-time employees receive paid sick leave. The Company appears to have made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in all counties in the State of Missouri. The Company writes fire and wind coverages, and markets liability coverages under an organizational agreement with its reinsurer. The Company's policies are sold by 8 licensed agencies, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses Grinnell Mutual Reinsurance Company policy forms. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the Company inspector, and adjusting services are performed by independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Assessments</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	<u>Net Income</u>
2006	\$803,405	\$334,107	\$886,588	\$492,904	\$33,100	\$(92,990)	\$(64,094)
2005	866,352	332,958	933,658	630,708	37,115	18,545	51,031
2004	862,446	382,759	903,264	345,532	34,025	30,181	71,163
2003	887,297	479,120	888,562	648,882	38,871	(7,374)	38,274
2002	831,199	460,374	907,035	714,065	47,378	(98,328)	(40,896)

At year-end 2006, 1,153 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct	\$907,035	\$888,562	\$903,264	\$933,658	\$886,588
Assumed	0	0	0	0	0
Ceded	(374,773)	(325,951)	(408,078)	(325,800)	(396,859)
Net	<u>\$532,262</u>	<u>\$562,611</u>	<u>\$495,186</u>	<u>\$607,858</u>	<u>\$489,729</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 an individual occurrence of loss excess with aggregate excess reinsurance agreement. The first occurrence of loss excess section of the agreement covers wind and fire risks. The Company retains \$50,000 per loss occurrence and the reinsurer is responsible for \$25,000 in excess of the retention. First occurrence of loss rates are based on the Company's five year loss experience under the contract, with the 2006 annual rates subject to a minimum of \$.1441 and a maximum of \$1.1528 per \$1,000 of adjusted gross risks in force.

The individual excess of loss section of the agreement covers wind and fire risks. The Company retains \$75,000 for each loss occurrence and the reinsurer's limits are \$500,000 for commercial and public property and livestock, poultry and horse operations and \$750,000 for dwellings and farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2006 was \$.5998 for fire and \$.0698 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2006 was \$304,104 and the annual premium paid was \$1.0135 per \$1,000 of adjusted gross fire risks in force.

The Company also participates in an organizational agreement with the reinsurer, under which the Company markets liability policies for the reinsurer and receives a 20% 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 CPA firm of Marberry, Miller & Bales, P.C. performs an annual audit of the Company's financial statements and prepares the Company's Annual Statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending 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. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2006

Bonds	\$ 595,305
Real Estate	6,539
Cash on Deposit	165,405
Reinsurance Recoverable on Paid Losses	31,566
Computer Equipment	2,700
Federal Income Tax Recoverable	593
Prepaid Insurance	1,297

Total Assets	<u><u>\$ 803,405</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Ceded Reinsurance Premium Payable	\$ 29,028
Unearned Premium	291,288
Other Liabilities	13,791

Total Liabilities	<u>\$ 334,107</u>

Guaranty Fund	\$ 150,000
Other Surplus	319,298

Total Surplus	469,298

Total Liabilities and Surplus	<u><u>\$ 803,405</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	\$ 504,591
Other Insurance Income	39,362
Net Losses & Loss Adjustment Expenses Incurred	(327,491)
Other Underwriting Expenses Incurred	(309,452)

Net Underwriting Income (Loss)	\$ (92,990)
Investment Income	33,100
Other Income	183

Gross Profit (Loss)	\$ (59,707)
Federal Income Tax	(4,387)

Net Income (Loss)	\$ (64,094)
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 533,394
Net Income (Loss)	(64,094)
Rounding	(2)

Policyholders' Surplus, December 31, 2006	\$ 469,298
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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.

