REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF LIVINGSTON COUNTY

AS OF
DECEMBER 31, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 12, 2007
Chillicothe, 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 LIVINGSTON COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 821 Washington Street (P.O. Box 735), Chillicothe, Missouri 64601, telephone number (660) 646-1700. This examination began on September 5, 2007, and was concluded on December 12, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior review of CPA report in lieu of 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.

Territory and Plan of Operations

Comment: It was recommended the Company obtain a written agreement with its agent. The agreement should include provisions relating to commission rates, errors and omissions coverage, and requirements that all applications submitted to the Company by the agent be completed timely and in full.

Company Response: The terms and conditions of the arrangement between the Company and its agency have been set forth in the minutes of several Board of Directors meetings. The Board of Directors prefers this arrangement as opposed to a separate contract.

Current Findings: The Company continues to operate without a written agreement with its agent (see the "Territory and Plan of Operations" section of this report).

Accounts & Records

Comment: Due to a higher than average reinsurance cost to gross premium average, it was recommended the Company review its reinsurance structure for possible cost savings.

Company Response: The Company's reinsurance cost is higher than that of most Missouri Mutuals because unlike most of the other companies, the Company is reinsured 100% against wind losses. The cost is higher, but losses related to the perils of wind are borne 100% by the reinsurer.

Current Findings: The Company's reinsurance cost continues to be considerably higher than average (see the "Accounts and Records" section of this report).

HISTORY

General

The Company was originally established in 1889 and incorporated on July 1, 1891. The Company has a Certificate of Authority dated April 15, 2005, 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 second Tuesday in February at the home office of the Company or at such place designated by the Board of Directors. Special meetings may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is 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, and directors receive $50 per each meeting attended.

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

Name and Address	Occupation	Term
Gordon Jones 7777 LIV 424 Dawn, Missouri	Farmer/Water Department Employee	2004-2007
Kent Bryan P.O. Box 83 Mooresville, Missouri	Farmer	2004-2007
Marion Nigus 22470 LIV 330 Hale, Missouri	Retired	2005-2008
Forrest Young 4890 Highway A Chillicothe, Missouri	Retired	2005-2008
David March 21187 LIV 320 Hale, Missouri	Retired	2006-2009

Deane Jacobs 2617 LIV 277 Chula, Missouri	Retired	2005-2008
Marty Eller 10827 LIV 237 Chillicothe, Missouri	Quality Control	2004-2007

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:

Gordon Jones	President
Kent Bryan	Vice-President
Marion Nigus	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 requires its directors and officers sign conflict of interest statements on an annual basis. No material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's written policies and procedures were reviewed. The minutes and records of the Company appear to properly reflect the 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 \$50,000. 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 \$1,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company purchases errors and omissions coverage for its agency with an aggregate limit of \$500,000 and a \$3,000 deductible each claim.

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 three full-time employees. The benefit package offered to the employees includes health insurance and paid vacation and 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, 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 one licensed agent, who receives commission of 12.5% on new business and 7.5% on renewal business, every third year of the policy. The Company does not have a written contract with its agent. It is recommended the Company execute a written contract with its agent that details the business arrangement. The contract should include language that places time limits for the delivery of fully-completed applications to the home office and specifies the responsibility for obtaining errors and omissions insurance.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting of minor claims are performed by the agent. Independent adjusters are utilized for other claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2006	$1,468,560	$188,409	$326,591	$194,769	$68,191	$(145,250)	$(73,159)
2005	1,530,328	179,717	337,981	159,599	62,738	(1,296)	78,770
2004	1,459,070	187,655	297,424	803,266	68,030	(203,725)	(118,863)
2003	1,572,615	182,337	292,648	146,185	54,872	10,010	78,982
2002	1,458,574	147,359	273,423	135,345	69,070	(41,421)	43,572

At year-end 2006, 770 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:

	2002	2003	2004	2005	2006
Direct	$273,423	$292,648	$297,424	$337,981	$326,591
Assumed	0	0	0	0	0
Ceded	(125,385)	(103,569)	(128,823)	(151,351)	(160,704)
Net	$148,038	$189,079	$168,601	$186,630	$165,887

Assumed

The Company does not reinsure other companies.

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 $25,000 per risk and the reinsurer's limit is $100,000. The second layer retention is $125,000 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 $175,000 for commercial and confinement risks and $375,000 for all other risks. The 2006 premium rate, as a percentage of written premiums, equaled 26% for layer one coverage and 2% for layer two coverage.

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 $84,000 per occurrence, and the reinsurer's limit is 95% of $1,000,000 per occurrence. Under the second layer, the Company's retention is $1,084,000, 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 2006 premium rate was $0.1548 and $0.1250 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 75% of the Company's net written premium, with an annual limit of $2,000,000. The 2005 reinsurance rate was 3% 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. Gene Jennings, CPA, performs an annual audit of the financial statements and prepares the Company's annual statement and tax filings.

A review of the 2006 Annual Statement filed by the Company noted numerous errors and omissions including, but not limited to, arithmetic errors and the failure to complete Schedule N – Cash and other schedules. The Company is directed to ensure future annual statement filings are accurate and complete.

In 2006, the combined total of the Company's reinsurance cost and operating expenses equaled 93.1% of gross premiums written. This resulted in less than 7% of premium written available for the payment of losses. Furthermore, it appears that in 2007, operating expenses have increased significantly, due to the addition of a new employee position. Such high expenditures for reinsurance and operating costs make the possibility for positive underwriting results very unlikely. The Company is directed to review its revenue and expense structure and submit a business plan to the DIFP. The plan should detail the Company's strategy to maintain the viability of the Company for the long-term.

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 (Note 1)	$	877,803
Stocks (Note 1)		246,082
Real Estate		26,602
Cash on Deposit		314,640
Premium Uncollected		220
Computer Equipment		2,039
Interest Due & Accrued		1,184
Total Assets	$	1,468,570

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Net Losses Unpaid	$	35,231
Ceded Reinsurance Premium Payable		(5,533)
Unearned Premium		154,000
Accounts Payable		2,287
Payroll Taxes Payable		2,424
Total Liabilities	$	188,409
Guaranty Fund (Note 2)	$	150,000
Other Surplus		1,130,161
Total Surplus		1,280,161
Total Liabilities and Surplus	$	1,468,570

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	$	171,887
Other Insurance Income		13,766
Net Losses & Loss Adjustment Expenses Incurred		(180,703)
Other Underwriting Expenses Incurred		(150,200)
Net Underwriting Income (Loss)	$	(145,250)
Investment Income		68,191
Other Income		3,900
Gross Profit (Loss)	$	(73,189)
Federal Income Tax		(0)
Net Income (Loss)	$	(73,189)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	$	1,350,611
Net Income (Loss)		(73,189)
Change in Non-Admitted Assets		2,739
Policyholders' Surplus, December 31, 2006	$	1,280,161

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Stocks and Other Investments

The Company included the balance of mutual fund investments of $244,582 in "Bonds" on the Annual Statement. As mutual funds are considered stock investments, the balance was reclassified per examination from "Bonds" to "Stocks".

Note 2 – Guaranty Fund

The Company reported a guaranty fund balance of $100,000. Per the guidelines set forth in Section 380.271 RSMo (Financial Reinsurance Requirements), the required minimum guaranty fund for the Company is $150,000. An examination change was made to increase the guaranty fund reported by $50,000.

EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2006			$ 1,280,161
	Increase in Surplus	Decrease in Surplus	
Bonds	$ 0	$ (244,582)	
Stocks	244,582	0	
Guaranty Fund	50,000	0	
Other Surplus		(50,000)	
	------------	------------	
Total Change	$ 294,582	$ (294,582)	(0)
Total Policyholder's Surplus Per Examination, December 31, 2006			$ 1,280,161

GENERAL COMMENTS AND RECOMMENDATIONS

Territory and Plan of Operation (Page 4)

It is recommended the Company execute a written contract with its agent that details the business arrangement. The contract should include language that places time limits for the delivery of fully-completed applications to the home office and specifies the responsibility for obtaining errors and omissions insurance.

Accounts and Records (Page 5)

The Company is directed to ensure future annual statement filings are accurate and complete.

The Company is directed to review its revenue and expense structure and submit a business plan to the DIFP. The plan should detail the Company's strategy to maintain the viability of the Company for the long-term.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Farmers Mutual Insurance Company of Livingston 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 DIFP

Sworn to and subscribed before me this 23rd day of October 2007.

My commission expires:

March 4, 2008

Kathryn Randolph
Notary Public

KATHRYN RANDOLPH
MY COMMISSION EXPIRES
March 4, 2008
NOTARY SEAL
Cole County
NOTARY PUBLIC, STATE OF MISSOURI

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
Chief Financial Examiner
Missouri DIFP