REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL PROTECTIVE ASSOCIATION OF BENTON 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 2, 2007
Lincoln, 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 PROTECTIVE ASSOCIATION OF BENTON COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 445 North Highway 65 (P.O. Box 11), Lincoln, Missouri 65338, telephone number (660) 547-2323. This examination began on May 1, 2007, and was concluded on May 2, 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 Missouri Department of Insurance 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 amend the agent agreements to specify a time limit for the delivery of fully-completed applications to the home office and to stipulate who is responsible for obtaining errors and omissions coverage for the agents.

Company Response: The Company amended its agent agreements to specify a time limit for delivery of fully completed applications to the home office and to specify who is responsible for obtaining errors and omissions coverage for the agents.

Current Findings: The Company amended its agent contracts to contain the language recommended in the previous examination.

HISTORY

General

The Company was originally organized on May 20, 1882 and incorporated on November 7, 1935, as Farmers Mutual Protective Association of Benton County.

The Company has a Certificate of Authority dated June 15, 2004, 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 last Wednesday in January at the home office of the Company or at such other place as may be designated by the Board of Directors. 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. 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 five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and the directors are compensated $50 per each attended meeting.

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

Name and Address	Occupation	Term
David Aery 20005 Meyer Road Warsaw, Missouri	Cattleman/Angling Supply Manufacturer	2004-2007
Ernie Burnett 23227 Highway H Lincoln, Missouri	Insurance Agent/Cattleman	2005-2008
Paul Meyer 24408 Mt. Pleasant Avenue Warsaw, Missouri	Agricultural Exchange Employee	2005-2008
Charles Garrison 14248 Garrison Road Lincoln, Missouri	Farmer	2004-2007
George Keightley 22626 Coffey Road Cole Camp, Missouri	Farmer	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:

David Aery	President
Ernie Burnett	Vice-President
Cathy Burton	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 material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. At the January 28, 2004 annual membership meeting, the Articles of Incorporation and Bylaws were amended and restated to facilitate the Company's change from an assessable Missouri Mutual Insurance Company ("Part 1") to a non-assessable Extended Missouri Mutual Insurance Company ("Part 2"). No other amendments were made 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 $750,000 and a $5,000 deductible in aggregate for each claim.

The Company purchases errors and omissions coverage for each of its two agents with an aggregate limit of $750,000 for each agent.

The Company carries business owners insurance which provides limits of $175,000 for the home office building, $25,000 for contents and $1,000,000 for general liability.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full-time and one part-time employee. The full-time employee receives a monthly medical allowance, and three weeks of vacation and ten days of sick leave each year. The part-time employee receives one week of vacation and ten days of sick leave each year. 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 Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 2 licensed agents, who receive a commission of 15%.

Policy Forms and Underwriting Practices

The Company uses AAIS forms and forms provided by its reinsurer, Cameron Country Mutual Insurance Company. The policies are renewed every four years. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the agents. Claims adjusting is also performed by independent adjusters, at the discretion of the Company Manager.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
2006	$921,747	$270,131	$496,972	$305,093	$23,294	$(93,936)	$(70,642)
2005	783,167	0	501,216	286,990	15,329	61,832	77,160
2004	796,294	0	442,164	163,548	15,202	(21,397)	1,260
2003	906,258	20,643	357,770	164,294	18,751	49,411	72,010
2002	810,483	0	343,779	93,904	24,618	136,668	170,633

At year-end 2006, 964 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	$343,779	$357,770	$442,164	$501,216	$496,972
Assumed	0	0	0	0	0
Ceded	(17,078)	(85,937)	(144,278)	(167,365)	(205,173)
Net	$326,701	$271,833	$297,886	$333,851	$291,799

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 15% 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 $116,000 per occurrence, and the reinsurer's limit is 95% of $1,000,000 per occurrence. Under the second layer, the Company's retention is $1,116,000, and the reinsurer's limit is 100% of $3,000,000. The reinsurer's annual limits are 95% of $2,000,000 for the first layer and 100% of $6,000,000 for the second layer. The 2006 premium rate was $.1548 and $.1663 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. The Company prepares its annual statement and statutory filings. Sharon Johnson's Accounting and Tax Service prepares the Company's 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

Real Estate	$ 203,408
Cash and Short-Term Investments	708,691
Other Assets	9,648

Total Assets	$ 921,747

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Ceded Reinsurance Premium Payable	$ 2,714
Unearned Premium	267,417

Total Liabilities	$ 270,131

Guaranty Fund	$ 150,000
Other Surplus	501,616

Total Surplus	651,616

Total Liabilities and Surplus	$ 921,747

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Premiums Earned	$ 292,069
Other Insurance Income	23,710
Net Losses & Loss Adjustment Expenses Incurred	(253,885)
Other Underwriting Expenses Incurred	(155,830)

Net Underwriting Income (Loss)	$ (93,936)

Investment Income	$ 23,294
Other Income	0

Net Income Before Tax	$ (70,642)
Federal Income Tax	(0)

Net Income (Loss)	$ (70,642)
	=========

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	$ 783,167
Net Income (Loss)	(70,642)
Prior Year Adjustment – Addition of Home Office Construction Costs (Note 1)	208,462
Prior Year Adjustment – 2005 Home Office Depreciation (Note 1)	(1,685)
Unearned Premium Adjustment – Conversion to Non-Assessable (Note 2)	(267,686)

Policyholders' Surplus, December 31, 2006	$ 651,616
	=========

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Surplus Adjustments – Home Office

The Company completed the construction of a new home office building in 2005, but did not report the capitalized cost of construction and associated 2005 depreciation in the 2005 Annual Statement. The adjustments correct the year-end surplus figure by adding the home office cost of $208,462 and deducting the applicable 2005 home office depreciation of $(1,685).

Note 2 – Surplus Adjustments – Unearned Premium Reserve

During the examination period the Company converted from an assessable to a non-assessable mutual. As a result of the conversion, the Company is required to report an unearned premium reserve, which had not been reported nor required to have been reported in prior years. The adjustment to surplus of $(267,686) reflects the current year change in reporting to account for an unearned premium reserve.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Protective Association of Benton 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 7th day of May, 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
Audit Manager – Kansas City
Missouri DIFP

Farmers Mutual Protective Assoc.

N. HWY. 65 - P.O. BOX 11
LINCOLN, MISSOURI 65338
(660)-547-2323

RECEIVED
JUN 04 2007
INSURANCE SOLVENCY & COMPANY REGULATION

June 01, 2007

Frederick G Heese, CFE, CPA
Acting Chief Financial Examiner
301 W High St - P O Box 690
Jefferson City, MO 65102-0690

Dear Mr Heese:

I wish to acknowledge the receipt and review of the draft copy of the Examination Report of Farmers Mutual Protective Association of Benton County. There were no General Comments or Recommendations in the report and we find the content of the report to be in order. We agree that this response should be included in the report as a public document.

Our Company would also like to express our appreciation to our examiner, Shannon Schmoeger, for his comments and suggestions that could improve the Company's operations. It is always a pleasant experience to have Mr. Schmoeger in our office.

Sincerely,

David L Aery

David Aery, President
Farmers Mutual Protective Assn