

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Farmers Mutual Insurance Company of Dade County as of
December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Dade County for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Dade County, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 27th day of September 2010.



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY OF
DADE COUNTY

AS OF
DECEMBER 31, 2009

FILED
SEP 27 2010
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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July 8, 2010
Lockwood, Missouri

Honorable John M. Huff, 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 DADE COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 810 Main Street, Lockwood, Missouri 65682, telephone number (417) 232-4593. This examination began on July 7, 2010, and concluded on July 8, 2010, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, 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

There were no comments or recommendations in the previous examination report dated December 31, 2004.

HISTORY

General

The Company was originally organized and incorporated on May 9, 1892, as Farmers Mutual Insurance Company of Dade County. In 1975, the Company was merged with Farmers Mutual Insurance Company of Wright County, with Farmers Mutual Insurance Company of Dade County being the surviving entity.

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 first Friday in February, 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. 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 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, 2009, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Larry Witt Dadeville, Missouri	Company Inspector	2008-2011

Larry Kenney Everton, Missouri	Service Station Owner	2009-2012
Helen Shouse Lockwood, Missouri	Retired Manager	2008-2011
Dale Grisham Lockwood, Missouri	Farmer	2008-2011
Steve Richter South Greenfield, Missouri	Farmer	2009-2012
Kenneth Spain South Greenfield, Missouri	Farmer	2007-2010
Sherri Wise Greenfield, Missouri	Company Manager	2007-2010

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, 2009, were as follows:

Kenneth Spain	President
Larry Kenney	Vice-President
Sherri Wise	Secretary
Larry Witt	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 significant conflicts were noted.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not amended 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.

The Company carries liability coverage for their directors and officers. The Company requires its agents to purchase errors and omissions coverage.

Other insurance coverages carried by the Company include property insurance on its home office and contents as well as premises liability insurance and workers compensation coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five full-time employees and one part-time employee. The benefits package offered to full-time employees includes family health insurance, life insurance, and paid time off. Employees hired prior to 1990 are eligible for a retirement bonus based on their average salaries and years of services. For employees hired after 1990, the Company matches a percentage of the employees' contributions to individual retirement accounts.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance 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 sixteen independent agents, who receive a fifteen percent commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS, MAMIC and Grinnell Mutual Reinsurance Company policy forms.

The policies are renewed annually. Property inspections are performed by employee inspectors. The adjusting function is performed by an employee adjuster as well as independent adjusters. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2009	\$3,432,705	\$1,309,481	\$2,416,762	\$2,818,956	\$134,709	\$(692,732)	\$(383,770)
2008	3,570,087	1,063,093	2,359,544	2,695,920	159,502	(782,588)	(431,957)
2007	4,077,794	1,138,843	2,339,252	2,495,561	177,495	(494,108)	(250,234)
2006	4,153,501	964,316	2,178,613	1,227,524	181,440	(264,244)	(71,943)
2005	4,266,633	1,005,505	1,907,181	1,457,634	165,578	(140,726)	3,552

At year-end 2009, 3,698 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:

	2005	2006	2007	2008	2009
Direct	\$1,907,181	\$2,160,324	\$2,319,171	\$2,339,691	\$2,396,690
Assumed	0	18,289	20,081	19,853	20,072
Ceded	(424,136)	(550,424)	(686,489)	(647,320)	(683,138)
Net	<u>\$1,483,045</u>	<u>\$1,628,189</u>	<u>\$1,652,763</u>	<u>\$1,712,224</u>	<u>\$1,733,624</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 95% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 95% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC

receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 4% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks.

Under the individual occurrence of loss excess portion of the agreement, the Company retains \$125,000 for each loss occurrence and the reinsurer's limits are \$1,000,000 per exposure.

Under the aggregate excess portion of the agreement, 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 2009 was \$1,687,549.

Under the facultative reinsurance portion of the agreement the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

Under the reinsured liability section of the agreement, the Company cedes 100% of the risk and premium for comprehensive personal and farmer's comprehensive personal liability policies, and receives a 20% 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 records are maintained by the Company on a modified cash basis. The firm of Williams and Associates, CPAs, completes the Company's Annual Statement and tax filings and performed an annual audit of the Company's financial statements for all years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2009, 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, 2009

Bonds	\$ 2,467,751
Real Estate	26,074
Cash on Deposit	163,898
Other Investments	150,939
Reinsurance Recoverable on Paid Losses	64,460
Computer Equipment	8,951
Federal Income Tax Recoverable (Note 1)	0
Interest Due and Accrued	11,004
Asset Write-Ins	89,941

Total Assets	<u><u>\$ 2,983,018</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2009

Ceded Reinsurance Premium Payable	\$ 55,469
Unearned Premium	918,101
Borrowed Money	246,083
Liability Write-Ins	89,828

Total Liabilities	\$ 1,309,481

Guaranty Fund (Note 2)	\$ 150,000
Other Surplus	1,523,537

Total Surplus	1,673,537

Total Liabilities and Surplus	\$ 2,983,018
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2009

Net Premiums Earned	\$ 1,713,137
Other Insurance Income	98,007
Net Losses & Loss Adjustment Expenses Incurred	(1,726,564)
Other Underwriting Expenses Incurred	(777,312)

Net Underwriting Income (Loss)	\$ (692,732)
Investment Income	120,283
Other Income	240

Gross Profit (Loss)	\$ (572,209)
Federal Income Tax (Note 1)	0

Net Income (Loss)	\$ (572,209)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2009

Policyholders' Surplus, December 31, 2008	\$ 2,506,994
Net Income (Loss) (Note 1)	(572,209)
Examination Change – Prior Years' Net Operating Losses (Note 1)	(261,248)

Policyholders' Surplus, December 31, 2009	\$ 1,673,537
	=====

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Federal Income Tax Recoverable

The Company reported net operating loss carry forwards attributable to tax years 2009 and prior totaling \$449,687 as an admitted asset in the federal income tax recoverable line of the 2009 Annual Statement. The Missouri Mutual Annual Statement instructions require the federal income tax recoverable asset to be an income tax refund due and not received. The net operating loss carryforwards do not meet this definition and were therefore non-admitted for examination purposes. The Company reported the portion of the net operating loss carryforwards attributable to the 2009 tax year of \$188,439 as negative federal income tax which reduced the Company's income statement net loss by the same amount. This offset was reversed in the income statement per the examination, resulting in a total income statement net loss of \$572,209. It is recommended the Company ensure that net operating loss carryforwards are treated as non-admitted assets in future Annual Statement filings.

Note 2 – Guaranty Fund

The guaranty fund balance of \$463,349 as reported by the Company exceeded the minimum requirements of Section 380.271 (Financial Reinsurance Requirements), based upon the Company net insurance risks in-force. The minimum guaranty fund applicable to the Company based upon the provisions of the statute is \$150,000. The guaranty fund balance per the examination was decreased by \$313,349 to reflect this minimum balance, with an equal increase to the other surplus balance. It is recommended the Company report future guaranty fund balances based on net insurance in-force and the provisions of Section 380.271 (Financial Reinsurance Requirements).

EXAMINATION CHANGES

Total Policyholder Surplus Per Company, December 31, 2009		\$ 2,123,224
	Increase in Surplus	Decrease in Surplus
Federal Income Tax Recoverable	\$ 0	\$ (449,687)
Guaranty Fund		(313,349)
Other Surplus	313,349	
	-----	-----
Total Change	<u>\$ 313,349</u>	<u>\$ (763,036)</u> (449,687)
Total Policyholder Surplus Per Examination, December 31, 2009		<u>\$ 1,673,537</u>

GENERAL COMMENTS AND RECOMMENDATIONS

Notes to Financial Statements (Page 11)

It is recommended the Company ensure that net operating loss carryforwards are treated as non-admitted assets in future Annual Statement filings.

It is recommended the Company report future guaranty fund balances based on net insurance in-force and the provisions of Section 380.271 (Financial Reinsurance Requirements).

SUBSEQUENT EVENTS

None.

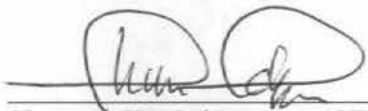
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Dade 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 28th day of July, 2010.

My commission expires:

March 16, 2014




Notary Public

DEBRA A. JOHNSON
Notary Public - Notary Seal
STATE OF MISSOURI
County of Cole
My Commission Expires 3/16/2014
Commission # 10437959

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.



Mark Nance, CPA, CFE
Audit Manager – Kansas City
Missouri DIFP

Rodieck, Tammy

From: Sherri Wise [sherri@dadecountyinsurance.com]
Sent: Tuesday, September 14, 2010 9:17 AM
To: Rodieck, Tammy
Subject: Examination Report

In response to the examination report for Farmers Mutual Insurance Company of Dade County, page 12
GENERAL COMMENTS AND RECOMMENDATIONS:

Farmers Mutual Insurance Company of Dade County will forward the information regarding operating loss carryforwards and guaranty fund balances to our CPA firm, Williams and Associates and will work directly with them to ensure the company is reporting these items in accordance with state regulations and requirements.

Sincerely,

Sherri Wise
Manager/Secretary

Please include this in the report.

Jeremiah W. (Jay) Nixon
Governor
State of Missouri



Department of Insurance
Financial Institutions
and Professional Registration
John M. Huff, Director

DIVISION OF INSURANCE COMPANY REGULATION

Frederick G. Heese, Chief Financial Examiner & Division Director

September 1, 2010

Kenneth Spain, President,
Farmers Mutual Insurance Company of Dade County
810 Main
Lockwood, MO 65682

Dear Mr. Spain:

Enclosed is a copy of the Examination Report of Farmers Mutual Insurance Company of Dade County for the period ending 12/31/2009. You will have 30 days in which to submit in writing any response or rebuttal to this Examination Report and **to indicate whether you wish your response or rebuttal to be included in the report as a public document.**

Your attention is directed to the General Comments and/or Recommendations contained on page 12 of this Examination Report. Please set forth your responses to these comments and indicate any corrective action that has been or will be instituted by your company. **Your response may be submitted by e-mail or fax by directing to:**

Tammy Rodieck, Exam Coordinator
Email: tammy.rodieck@insurance.mo.gov
Fax: 573-751-5888
Phone: 573-526-4877

In the meantime, you are not authorized to distribute copies of the Examination Report until you are notified to do so by this office. Please contact the Department should you have any questions.

Sincerely,

Handwritten signature of Frederick G. Heese in black ink.

Frederick G. Heese, CFE, CPA
Chief Financial Examiner & Division Director

FGH/tsr

Enclosure
Certified Mail No. 7007 0710 0002 2055 4996
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