

**REPORT OF THE
FINANCIAL EXAMINATION OF
FOREST GREEN FARMERS MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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June 12, 2007
Salisbury, 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

FOREST GREEN FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 32478 Brummal Road, Salisbury, Missouri 65281, telephone number (660) 388-5540. This examination began on June 11, 2007, and was concluded on June 12, 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

There were no previous examination report comments.

HISTORY

General

The Company was originally organized in 1897 and was incorporated on December 5, 1927, as Forest Green Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated January 14, 1996, 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 Saturday in March at the home office of the Company, or at such other place as may be designated previous membership meetings or by the Board of Directors. Eight members shall constitute a

quorum at any membership meeting. Proxy voting is not addressed in the Articles of Incorporation or Bylaws. 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 quarter, 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>
Todd Linneman 30372 Hayes Cutoff Road Salisbury, Missouri	Farmer	2005-2008
Dale Aholt 790 County Road 248 Glasgow, Missouri	Farmer	2006-2009
Don Sanders 3461 State Route E Fayette, Missouri	Farmer	2004-2007
Clifford Imgarten 32478 Brummal Road Salisbury, Missouri	Farmer	2005-2008
Norbert Gebhardt 34240 Highway T Salisbury, 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:

Clifford Imgarten	President
Donald Sanders	Vice-President
Debbie Imgarten	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. One potential conflict disclosure was noted, which consisted of a director who also serves on the board of a local bank of which the Company is a customer.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles were amended on March 13, 2004 to update the home office address and delete references to "assessments" to facilitate the Company's conversion to a non-assessable mutual. The Bylaws were likewise amended on January 22, 2005, to delete references to "assessments."

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 \$25,000. 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's agents are required to obtain errors and omissions coverage and provide evidence of such coverage to the Company.

The Company does not have a home office and has limited business property, and therefore does not carry property insurance. The Company does carry commercial general liability and workers compensation insurance coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two part-time employees. Other than salary and an annual allowance for health insurance reimbursement, the Company does not provide employee benefits. 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 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 three licensed agencies, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS, MAMIC, and Grinnell Mutual Reinsurance Company 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 are performed by the agents, and adjusting services are performed by the Company President, while independent adjusters may be utilized at the discretion of management.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
2006	\$751,193	\$145,895	\$263,111	\$385,325	\$37,881	\$(53,515)	\$(15,634)
2005	759,123	137,811	241,897	78,466	37,464	(447)	37,017
2004	716,796	129,941	217,457	30,332	38,276	(87,865)	(48,434)
2003	640,318	10,449	185,611	78,148	34,960	2,803	38,752
2002	601,517	10229	154,470	18,871	29,513	10,579	86,342

At year-end 2006, 484 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	\$154,470	\$185,611	\$217,457	\$241,897	\$263,111
Assumed	0	0	0	0	0
Ceded	<u>(67,379)</u>	<u>(69,332)</u>	<u>(73,989)</u>	<u>(89,805)</u>	<u>(71,919)</u>
Net	<u>\$ 87,091</u>	<u>\$116,279</u>	<u>\$143,468</u>	<u>\$152,092</u>	<u>\$191,192</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 plan reinsurance agreement. The individual occurrence of loss section of the agreement covers fire and wind risks. The Company retains \$100,000 per 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 \$.1628 for fire and \$.0373 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 \$118,087 and the annual premium paid was \$.5589 per \$1,000 of adjusted gross fire risks in force.

The agreement also provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer 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 accounting records are maintained by the Company on a cash basis and adjusted to an accrual basis for Annual Statement reporting. The Company prepares the Annual Statement and tax filings.

The corporate bond investments held by the Company at December 31, 2006, were not in compliance with Missouri regulations. 20 CSR 200-12.020 (Approved Investments) allows for investment in corporate bonds with ratings no lower than Moody's "Aa3" and Standard & Poors "AA-". The Company held three corporate bond issues rated lower than these guidelines, with a statement value of approximately \$55,000. In addition, the regulation restricts the total amount invested in corporate bonds to 20% of total admitted assets. At December 31, 2006, the Company's corporate bond investments represented 32% of admitted assets, or approximately \$88,000 in excess of the maximum allowed. The Company is directed to bring its investment portfolio into compliance with 20 CSR 200-12.020 (Approved Investments) in regard to corporate bond investments.

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	\$ 389,137
Cash on Deposit (Note 1)	355,690
Other Investments (Note 1)	0
Interest Due and Accrued	6,366

Total Assets	<u><u>\$ 751,193</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006**

Ceded Reinsurance Premium Payable	\$ 6,034
Unearned Premium	136,760
Federal Income Tax Payable (Note 2)	0
Other Liabilities (Note 2)	3,101

Total Liabilities	\$ 145,895

Guaranty Fund	\$ 150,000
Other Surplus	455,298

Total Surplus	605,298

Total Liabilities and Surplus	<u><u>\$ 751,193</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	\$ 178,813
Other Insurance Income	1,788
Net Losses & Loss Adjustment Expenses Incurred	(146,933)
Other Underwriting Expenses Incurred	(87,184)

Net Underwriting Income (Loss)	\$ (53,515)
Investment Income	\$ 37,881

Gross Profit (Loss)	\$ (15,634)
Federal Income Tax	0

Net Income (Loss)	\$ (15,634)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 621,312
Net Income (Loss)	(15,634)
Accrued Interest Adjustment	(381)

Policyholders' Surplus, December 31, 2006	\$ 605,297
	=====

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Cash on Deposit and Other Investments

The Company reported the balance of certificates of deposit and money market funds of \$327,902 as “Other Investments” on the Annual Statement. As these items are considered cash deposits, the balance was reclassified per examination from “Other Investments” to “Cash on Deposit”. It is recommended the Company report certificate of deposit and money market fund balances as “Cash on Deposit” in future Annual Statement filings.

Note 2 – Federal Income Tax and Other Liabilities

The Company reported the payroll taxes payable of \$3,101 as “Federal Income Tax Payable” on the Annual Statement. As the “Federal Income Tax Payable” line of the Annual Statement is reserved for income taxes due on Company earnings, the payroll tax payable balance was reclassified per examination to a liability write-in line. It is recommended the Company report payroll taxes payable in the liability write-in lines of future Annual Statement filings.

EXAMINATION CHANGES

The reclassification of balances described in the “Notes to the Financial Statements” section of this report resulted in a zero net change to policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

Accounts & Records - Investments (Page 4)

The Company is directed to bring its investment portfolio into compliance with 20 CSR 200-12.020 (Approved Investments) in regard to corporate bond investments.

Notes to the Financial Statements (Page 8)

It is recommended the Company report certificate of deposit and money market fund balances as “Cash on Deposit” in future Annual Statement filings.

It is recommended the Company report payroll taxes payable in the liability write-in lines of future Annual Statement filings.

SUBSEQUENT EVENTS

None.

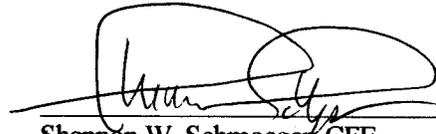
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Forest Green Farmers Mutual Insurance Company 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.

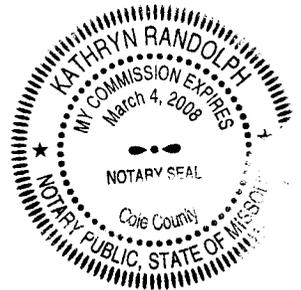

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 6th day of July, 2007.

My commission expires:

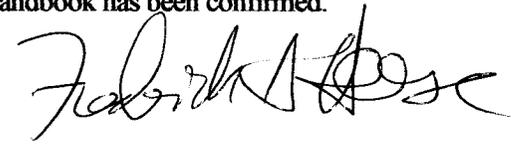
March 4, 2008


Kathryn Randolph
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.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP