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STATE OF MISSOURI

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DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Lincoln County Farmers Mutual for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Lincoln County Farmers Mutual Insurance for the period ended December 31, 2012, 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 Lincoln County Farmers Mutual 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, if any, 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 24th day of October 2013.

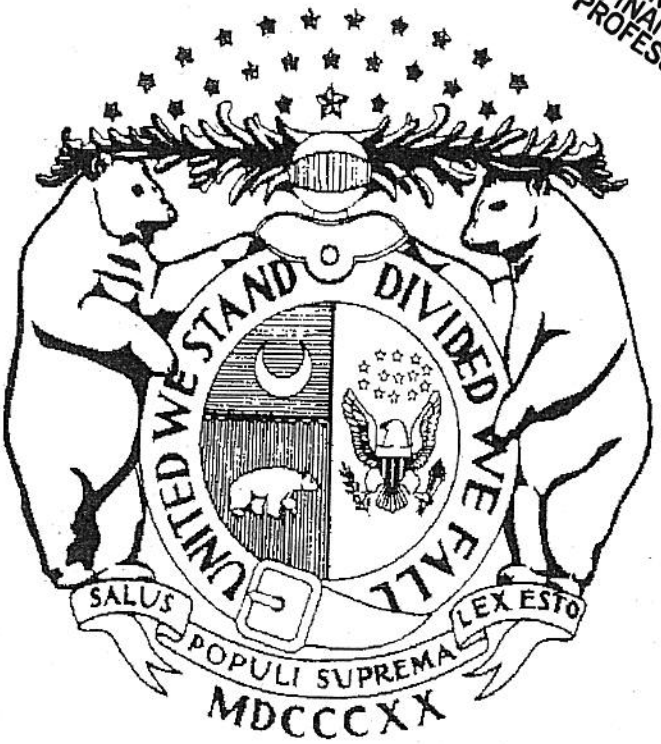
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

LINCOLN COUNTY FARMER'S MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2012

FILED
OCT 24 2013
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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September 13, 2013
Troy, 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

LINCOLN COUNTY FARMER'S MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 320 Main Street (P.O. Box 273), Troy, Missouri 63379, telephone number (636) 528-8242. This examination began on August 5, 2013 and was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2007, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2008, through December 31, 2012, 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, 2007, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Guaranty Fund

The Company overstated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements). The amount of guaranty fund per examination was $150,000, while the amount reported on the 2007 Annual Statement was $384,997. An examination change was made to decrease the guaranty fund by $234,997, with a corresponding increase of $234,997 to other surplus. The examination change had no affect on the total policyholder surplus balance.

Current Findings: The Company overstated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements) on the 2012 Annual Statement. See Note 1 in the Notes to the Financial Statements.

Corporate Records

The company is directed to ensure quorum requirements are met at future membership meetings and to adequately document such compliance in the membership meeting minutes.

Current Findings: The Company provided adequate documentation in the membership meeting minutes that quorum requirements were met during the period under examination.

Accounts and Records

The Company is directed to request approval for its AllianceBernstein stock investment from the DIFP or to divest of its interest in this investment.

Current Findings: The Company has divested its interest in all stock investments.

HISTORY

General

The Company was originally organized on October 6, 1900, and incorporated on November 22, 1900, as Lincoln County Farmers Mutual Fire and Lighting Insurance Company. On January 22, 2000, the Company changed its name to Lincoln County Farmer's Mutual Insurance Company.

The Company has a Certificate of Authority dated December 1, 1988, 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 Saturday in March at the home office of the Company or at such other place and time as may be designated by management. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members.

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 each director is compensated $50 per meeting attended.

Members serving on the Board of Directors as of December 31, 2012, were as follows:

Name and Address	Occupation	Term
Frank W. Kadlec 484 Linns Mill Road Troy, Missouri	Retired	2006-2015
Larry Black 2449 West Highway U Hawk Point, Missouri	Retired	2005-2014
Kenneth Hardy 116 Bluffview Drive Troy, Missouri	Retired	2007-2013
James Mayes 174 New Hope Road Elsberry, Missouri	Retired	2007-2013
Paul Lovell 806 Highway E Silex, Missouri	Retired	2009-2013
Charles Watson 955 Highway V Troy, Missouri	Insurance Agent	2006-2015
Daniel Gooding	Farmer	2005-2014

745 Tickridge Road
Silex, Missouri

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, 2012, were as follows:

James Mayes	President
Paul Lovell	Vice-President
Charles Watson	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. A review of the completed conflict of interest statements noted no potential material conflicts 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. 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 $50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $50,000.

The Company carries liability coverage for its directors and officers and errors and omissions coverage for its agents. The Company carries property coverage on its home office and contents, as well as general liability insurance and workers' compensation insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees and three part-time employees. Other than wages, the only benefit provided to the employees by the Company is paid time off.

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 writes fire, wind, and liability insurance in all counties in the State of Missouri. The Company's policies are sold by two licensed agents, who are salaried employees of the Company.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and MAMIC policy forms. The policies are renewed annually. Renewal billings are mailed directly to the insured. Property inspections and adjusting functions are performed by independent inspectors and adjusters. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2012	$2,245,936	$ 467,397	$1,015,593	$363,588	$ 56,275	$ 96,799	$ 125,004
2011	2,111,076	457,451	964,393	424,271	58,330	(51,438)	22,433
2010	2,088,595	457,491	936,396	285,088	46,377	52,882	83,935
2009	2,000,685	453,516	935,292	473.863	73,662	(35,961)	37,701
2008	2,030,584	521,116	941,323	332,830	45,728	17,582	23,301

At year-end 2012, 1,701 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:

	2008	2009	2010	2011	2012
Direct	$ 941,323	$ 935,292	$ 936,396	$ 964,393	$ 1,015,593
Assumed	0	0	0	0	0
Ceded	(398,866)	(416,877)	(418,217)	(312,479)	(315,608)
Net	$ 542,457	$ 518,415	$ 518,179	$ 651,914	$ 699,985

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement pertains to agents' errors and omissions liability and director and officer liability policies written by MAMIC. MAMIC cedes 100% of the first $1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first $2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MAMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 2% 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.

Under the individual occurrence of loss excess portion of the agreement, the Company retains $50,000 per occurrence and the reinsurer's limits are: $1,000,000 for livestock, poultry and horse operations; $1,000,000 for commercial and public property; $1,000,000 for farm product and storage structures; $2,000,000 for farm machinery and equipment storage buildings; and $1,000,000 for dwellings. 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 2012 was $.5084 for fire and $.1855 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 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 2012 was $435,000 and the annual

premium paid was $.4036 per $1,000 of adjusted gross fire risks in force.

The agreement also provides quota share reinsurance coverage for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability premiums and losses 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 modified cash basis. Sara Burkemper, CPA, compiles the annual statement and prepares tax filings.

The Company appears to exceed the allowable limit in regards to its investments in Mutual Funds, per 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments), which limits mutual funds invested in bonds to 10% of total policyholder surplus. The total mutual funds invested in bonds as of December 31, 2012 was $233,926, which exceeds the limit by approximately $56,000. The Company is directed to request approval for these mutual fund investments or to divest of its interest in these investments.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2012, 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.

ASSETS
December 31, 2012

Bonds	$ 390,207
Mutual Funds	233,926
Real Estate	41,880
Cash on Deposit	1,480,434
Other Investments	85,079
Interest Due and Accrued	7,733
Asset Write-ins	6,677
Total Assets	$2,245,936

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2012

Gross Losses Unpaid	$ 4,402
Gross Loss Adjustment Expense Unpaid	1,863
Ceded Reinsurance Premium Payable	28,487
Unearned Premiums	426,017
Federal Income Tax Payable	700
Liability Write-ins	5,928
Total Liabilities	$ 467,397
Guaranty Fund (Note 1)	$150,000
Other Surplus	1,629,239
Total Surplus	1,779,239
Total Liabilities and Surplus	$ 2,245,936

STATEMENT OF INCOME
For the Year Ending December 31, 2012

Net Premiums Earned	$ 685,212
Other Insurance Income	11,604
Net Losses & Loss Adjusting Expenses Incurred	(328,317)
Other Underwriting Expenses Incurred	(271,700)
Net Underwriting Income (Loss)	$ 96,799
Net Investment Income	56,275
Other Income	2,990
Gross Profit (Loss)	$ 156,064
Federal Income Tax	(31,060)
Net Income (Loss)	$ 125,004

CAPITAL AND SURPLUS ACCOUNT
December 31, 2012

Policyholders' Surplus, December 31, 2011	$ 1,653,535
Net Income (Loss)	125,004
Policyholders' Surplus, December 31, 2012	$ 1,778,539

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Guaranty Fund

The Company overstated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements). The amount of guaranty fund per examination was $150,000, while the amount reported on the 2012 Annual Statement was $460,072. An examination change was made to decrease the guaranty fund by $310,072, with a corresponding increase of $310,072 to other surplus. The examination change had no effect on the total policyholder surplus balance.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the guaranty fund and resulted in no change to total policyholder surplus.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

Accounts and Records (Page 7)

The Company is directed to request approval or divest of the mutual fund investments in bonds which exceed the limitations per CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments).

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Lincoln County Farmer's Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
City of St. Louis)

I, Jennifer R. Danz 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.

Jennifer R. Danz
Jennifer R. Danz, CPA, CFE
Examiner In Charge
Missouri DIFP

Sworn to and subscribed before me this 18th day of Dec, 2013.

My commission expires:

May 11, 2016

Andrea V. Moffatt
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.

Michael R. Shadowens
Michael Shadowens, CFE
Audit Manager – St. Louis
Missouri DIFP

ANDREA V. MOFFATT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 11, 2016
Commission Number: 12552590

Lincoln County Farmers Mutual Insurance

320 Main Street
P. O. Box 273
Troy, MO 63379

Phone: 636-528-8242
Fax: 636-528-3908

October 18, 2013

Frederick G Heese, CFE, CPA
DIFP
PO Box 690
Jefferson City, MO 65102-0690

Dear Mr Heese:

This letter is in response to your letter dated September 26, 2013, requesting a response or rebuttal to the Examination Report. In regards to the item listed in the Summary of Recommendations section contained on page 10 of the Examination Report of Lincoln County Farmers Mutual Insurance for the period ending December 31, 2012, please include in the report as a public document the response listed below:

Accounts and Records (Page 7)
Our response to your recommendation is as follows:

On October 10, 2013, Lincoln County Farmers Mutual Insurance Company sold shares equal to $179,698.46 in the following Mutual Funds:

- Franklin MO Tax-Free Income A — 3,012.048 shares totaling $35,000.00
- Franklin US Government Secs A — 8,682.765 shares totaling $56,698.46
- Lord Abbett Natl Tax Fr Incm A — 4,847.909 shares totaling $51,000.00
- Nuveen MO Muni Bond Fund Cl A — 3,429.101 shares totaling $37,000.00

I have included copies of the Edward Jones Trade Confirmations for each transaction listed above; these should serve as adequate verification of the total amount of shares sold. This money is being re-invested into various Certificates of Deposit. This brings the total investment in Mutual Funds within the allowable limit as indicated in 20 CSR 200-12.020 Extended Missouri Mutual Companies' Approved Investments.

Please contact our office at #636-528-8242 should you have any questions.

Sincerely,

Charles Watson

Charles Watson
Secretary/Treasurer

CW/krh

Established 1900