REPORT OF THE
FINANCIAL EXAMINATION OF

LINCOLN COUNTY FARMER'S MUTUAL INSURANCE

AS OF
DECEMBER 31, 2007

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

December 29, 2008
Troy, Missouri

Honorable Kip Stetzler, Acting 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

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 October 14, 2008, and was concluded on October 16, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, 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, 2002, 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 execute written agreements with its agents that include provisions regarding time limits for the delivery of fully completed applications to the home office and stipulate who is responsible for obtaining errors and omissions coverage for the agents.

Company Response: The Company will write and execute agreements with its agents.

Current Findings: The Company's sole agent is an employee of the Company, not a contracted individual. As such, an agent contract does not currently appear necessary.

Accounts and Records

Comment: It was recommended the Company maintain cash and cash investment balances at or below FDIC insurance limits or obtain additional insurance on the deposits.

Company Response: The Company will ensure that cash deposits do not exceed insured limits in the future.

Current Findings: The Company's cash deposits did not materially exceed insured limits as of the examination date.

Notes to the Financial Statements

Comment: It was recommended the Company calculate and report an unearned premium reserve on future annual statements.

Company Response: The Company will report an unearned premium reserve on future annual statements.

Current Findings: The Company reported an unearned premium reserve during the examination period, as recommended.

HISTORY

General

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

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. Quorum requirements and proxy voting are not addressed in the Articles of Incorporation.

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 the directors are compensated $50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

Name and Address	Occupation	Term
Frank W. Kadlec 484 Linns Mills Road Troy, Missouri	Retired	2006-2009
Larry Black 2449 West Highway U Hawk Point, Missouri	Retired	2005-2008
Kenneth Hardy 27 Southgate Drive Troy, Missouri	Retired	2007-2010

James Mayes 174 New Hope Road Elsberry, Missouri	County Commissioner	2007-2010
Margaret Major 158 Highway KK Troy, Missouri	Company Manager	2007-2010
Charles Watson 955 Highway V Troy, Missouri	Insurance Agent	2006-2009
Daniel Gooding 745 Tickridge Road Silex, Missouri	Farmer	2005-2008

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, 2007, were as follows:

Frank W. Kadlec	President
Kenneth Hardy	Vice-President
Charles Watson	Secretary
James L. Mayes	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 potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On March 6 2004, the Articles of Incorporation were amended to add filing requirements for candidates seeking a position on the Board of Directors. The 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 Company membership meeting minutes did not document the number of members present at the meetings. Section 380.381 RSMo. (Annual Meeting, Quorum) requires a minimum of eight members present at each membership meeting to reach a quorum. 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.

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 \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for their directors and officers. In addition, the Company purchases errors and omissions liability insurance coverage for its agent.

The Company carries property coverage on its home office and contents, as well as general liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees and one part-time employee. Full time employees receive two weeks of paid vacation and group health insurance. It appears the Company has made adequate provisions for the benefits in the financial statements.

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 one licensed agent, who is a salaried employee of the Company.

Policy Forms and Underwriting Practices

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

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2007	$1,930,500	$444,335	$933,025	$478,886	$75,526	$ (16,392)	$53,048
2006	1,820,653	428,202	900,518	789,132	57,612	(10,849)	42,384
2005	1,852,423	502,356	896,578	390,850	34,417	145,965	127,076
2004	1,812,660	472,489	894,697	511,836	31,135	123,056	153,282
2003	1,685,279	489,388	872,992	291,814	38,447	151.692	118,251

At year-end 2007, 1,559 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:

	2003	2004	2005	2006	2007
Direct	$ 872,992	$ 894,697	$ 896,578	$ 900,518	$933,025
Assumed	0	0	0	0	0
Ceded	(216,562)	(283,622)	(284,905)	(315,635)	(409,124)
Net	$ 656,430	$ 611,075	$ 611,673	$ 584,883	$ 523,901

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to agents errors and omissions liability and director and officer liability policies written by MMIC. MMIC 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. MMIC 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 excess with aggregate excess plan reinsurance agreement. The first occurrence of loss excess section of the agreement covers wind and fire risks. The Company retains \$30,000 per loss occurrence and the reinsurer is responsible for \$20,000 in excess of the retention. First occurrence of loss rates are based on the Company's five year loss experience under the contract, with the 2007 annual rates subject to a minimum of \$.2279 and a maximum of \$1.8228 per \$1,000 of adjusted gross risks in force.

The individual occurrence of loss section of the agreement covers fire and wind risks. The Company retains \$50,000 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 2007 was \$.7658 for fire and \$.1266 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 2007 was \$401,733 and the annual premium paid was \$.4171 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 cash basis. Sara Burkemper, CPA, compiles the annual statement and prepares tax filings.

The Company held shares of AllianceBernstein bond mutual fund with a statement value of \$165,434, or about nine percent of total assets. Mutual funds are considered stocks and are not permitted as investments per 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). The Company is directed to request approval for its AllianceBernstein stock investment from the DIFP or to divest of its interest in the investment.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, 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, 2007

Bonds	$ 174,080
Stocks	178,786
Real Estate	41,771
Cash on Deposit	1,455,752
Other Investments	46,777
Reinsurance Recoverable on Paid Losses	20,903
Federal Income Tax Recoverable	3,840
Interest Due and Accrued	8,591
Total Assets	$1,930,500

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Unpaid Loss Adjusting Expense	$ 1,856
Ceded Reinsurance Premium Payable	32,872
Unearned Premium	405,532
Payroll Tax Payable	4,075
Total Liabilities	$ 444,335
Guaranty Fund (Note 1)	$ 150,000
Other Surplus	1,336,165
Total Surplus	1,486,165
Total Liabilities and Surplus	$1,930,500

STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Premiums Earned	$	512,816
Other Insurance Income		12,562
Net Losses & Loss Adjustment Expenses Incurred		(317,587)
Other Underwriting Expenses Incurred		(224,183)
Net Underwriting Income (Loss)	$	(16,392)
Investment Income	$	75,526
Other Income		74
Gross Profit (Loss)	$	59,208
Federal Income Tax		(6,160)
Net Income (Loss)	$	53,048

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	$1,392,451
Net Income (Loss)	53,048
Correction of Prior Year Errors – E&O / D&O Pool Investment	40,666
Policyholders' Surplus, December 31, 2007	$1,486,165

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 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.

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.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 4)

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.

Accounts and Records (Page 7)

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

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Lincoln County Farmer's Mutual Insurance 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 30th day of December, 2008.

My commission expires:

May 18 2012

Kimberly Landers
Notary Public

KIMBERLY LANDERS
MY COMMISSION EXPIRES
May 18, 2012
NOTARY SEAL
CALLAWAY 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.

Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP

Lincoln County Farmers Mutual Insurance

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

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

February 23, 2009

Frederick G Heese, CFE
Department of Insurance
PO Box 690
Jefferson City, MO 65102-0690

RECEIVED
FEB 25 2009
DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

This letter is in regards to the items listed in the General Comments and/or Recommendations section contained on page 11 of the Examination Report for Lincoln County Farmers Mutual Insurance. Please include the responses below in the report.

Corporate Records (Page 4)
Our response to your comment/recommendation is as follows:
Each member present at future membership meetings are to sign in on the attendance log sheet and this log sheet will become part of the Annual Meeting Minutes. We will have no less than 8 members present at all future membership meetings.

Accounts and Records (Page 7)
Our response to your comment/recommendation is as follows:
We will contact the DIFP to request approval for the Alliance Bernstein stock investment. We have also taken $75,000.00 out of the Alliance Bernstein investment and reinvested it into a University of Missouri Tax Free Bond. This should bring the Alliance Bernstein total investment to less than 5% of our total assets.

Sincerely,

Frank W Kadlec

Frank Kadlec, President

FK/krh

Established 1900