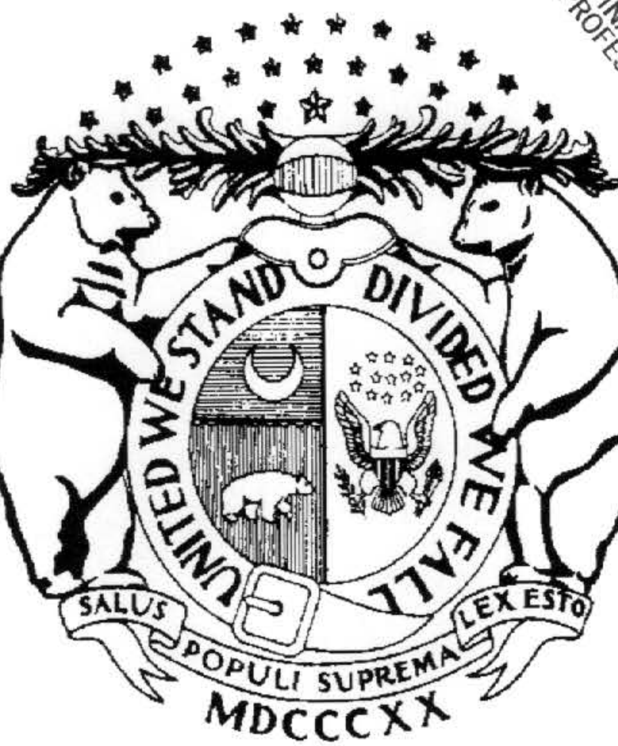
REPORT OF THE
FINANCIAL EXAMINATION OF

LUTHERAN FIRE AND LIGHTNING INSURANCE COMPANY OF LAWRENCE COUNTY, MISSOURI

AS OF
DECEMBER 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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August 28, 2007
Monett, 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

**LUTHERAN FIRE AND LIGHTNING INSURANCE COMPANY
OF LAWRENCE COUNTY, MISSOURI**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 4982 Farm Road 1057, Monett, Missouri 65708, telephone number (417) 442-7563. This examination began on August 27, 2007, and was concluded on August 28, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior review of the Certified Public Accountant's audited financial statement in lieu of an 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

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.

Corporate Records

Comment: It was recommended the Company ensure the annual membership meeting is held on the date outlined in its Constitution and Bylaws.

Company Response: The Constitution and Bylaws were restated during the examination period to reflect the date the annual membership meetings are currently held.

Current Findings: The annual membership meetings are being held on a date consistent with the date prescribed in the organizational documents of the Company.

Comment: It was recommended the Company place its policies and procedures in written form. These policies and procedures should include: investment policies, check authorization policies, underwriting guidelines, employee job descriptions, inspection process and claims payment policies.

Company Response: The Company has drafted and approved a policy and procedures manual.

Current Findings: The Company has a policy and procedure manual in place that adequately addresses the operations of the Company.

Conflict of Interest

Comment: It was recommended the Company ensure conflict of interest statements are completed by each officer and director on an annual basis.

Company Response: The Company currently requires all officers to complete conflict of interest statements on an annual basis.

Current Findings: Conflict of interest disclosures were completed by each director and officer on an annual basis during the examination period.

HISTORY

General

The Company was originally organized and incorporated on August 25, 1933 as the Lutheran Fire and Lightning Insurance Company of Lawrence County, Missouri.

The Company has a Certificate of Authority dated June 13, 2005 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 February at the home office of the Company or at such place designated by the Board of Directors. Special meetings may be called by the President or Secretary/Treasurer with the consent of two other directors. Eight 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 six members serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter. D irectors from the local area are compensated $60 per meeting attended and directors from Lockwood are compensated $70 per meeting attended.

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

Name and Address	Occupation	Term
Nolan Meier Route 2 Monett, Missouri	Retired Farmer	2005-2008
Melvin Eggerman 483 South Highway 97 Lockwood, Missouri	Farmer/Agent	2004-2007

Mark McMillin 4982 Farm Road 1057 Monett, Missouri	Company Manager/Farmer	2004-2007
Terry Mattlage 19083 Law 1070 Pierce City, Missouri	Farmer	2006-2009
Bob Moennig 17430 Lawrence 1050 Pierce City, Missouri	Farmer	2005-2008
Leland Eggerman Route 3 Box 44 Lockwood, Missouri	Farmer	2006-2009

The Board of Directors appoints the officers of the Company for a term of one year. The officers of the Company serving at December 31, 2006 were as follows:

Nolan Meier	President
Melvin Eggerman	Vice President
Mark McMillin	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. The examiner reviewed the executed conflict of interest statements and no potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were amended and restated in their entirety on February 5, 2005. Significant amendments to the Articles of Incorporation included changing the annual membership meeting date from the last Saturday in August to the first Saturday in February and removing all references to assessments to facilitate the Company's conversion to a non-assessable mutual. Likewise, references to assessments were removed in the restated Bylaws.

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 between $25,000 and $50,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of $500,000 and a $5,000 deductible in aggregate for each claim.

The Company purchases errors and omission coverage for its two agents.

The Company does not own its office building or any significant personal property and thus does not carry property insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one part-time employee. Other than a monthly salary, the employee does not receive any additional benefits. The Company has a verbal arrangement with a company owned by the Company Manager for management services and the reimbursement of certain expenses. It is recommended the Company enter into a written contract which details the provisions of the management arrangement and file the contract with the DIFP. The Company appears to have made adequate provisions for the employee benefits in its 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 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 and wind coverages. The Company's policies are sold by 2 licensed agencies, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company agents, and independent adjusters are also utilized as needed.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2006	$1,509,663	$100	$173,985	$ 72,138	$59,418	$(33,746)	$25,863
2005	1,483,785	85	167,021	62,426	41,572	(15,052)	26,573
2004	1,457,191	64	159,057	62,479	34,922	2,339	37,920
2003	1,420,138	932	153,291	240,725	48,598	10,904	62,845
2002	1,356,415	54	149,933	69,230	59,763	18,222	78,657

At year-end 2006, 271 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	$149,933	$153,291	$159,057	$167,021	$173,985
Assumed	0	0	0	0	0
Ceded	(74,340)	(79,830)	(84,004)	(69,564)	(68,805)
Net	$ 75,593	$ 73,461	$ 75,053	$ 97,457	$105,180

Assumed

The Company does not reinsure others.

Ceded

The Company has its reinsurance through two contracts with different reinsurers. The contracts cover property risks only, with one contract covering the peril of wind and the other covering the peril of fire.

The peril of fire is covered under a per risk excess of loss reinsurance contract with annual aggregate limit with Farmers Mutual Reinsurance Company of Missouri (FMRe). Under the per risk section of the agreement, the Company retains \$25,000 per risk and cedes the excess to FMRe, limited to \$650,000 per risk. Under the aggregate section of the agreement, FMRe is liable for the Company's net losses in excess of 80% of net premium income, limited to \$1,000,000. The 2006 premium rate was 20% of fire premium, with a 20% discount if the Company achieves a loss ratio of 55% or less on business ceded under the agreement.

The peril of wind is covered under a per risk excess of loss with aggregate excess contract with Cameron Country Mutual Insurance Company (CCMIC). The per risk excess of loss section of the agreement consists of two layers. Under the first layer, the Company retains \$25,000 per risk and CCMIC's limit is \$100,000. The second layer retention is \$125,000, and CCMIC's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. CCMIC'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 16.0% for layer one coverage and 2.5% for layer two coverage.

The catastrophe excess of loss section of the agreement consists of two layers. Under the first layer, the Company's retention is \$50,000 per occurrence, and CCMIC's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,050,000, and CCMIC's limit is 100% of \$2,000,000. CCMIC's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$4,000,000 for the second layer. The 2006 premium rate was \$0.1393 and \$0.1125 per \$1,000 of total insurance in force for layers one and two, respectively.

Under the aggregate excess of loss section of the agreement, CCMIC 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 2006 reinsurance rate was 17.5% of written premium.

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. The CPA Group, P.C. performs an a nnual audit of the Company's financial statements and prepares the Company's Annual Statement and 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

Cash on Deposit	$ 1,507,413
Other Assets	2,251

Total Assets	$ 1,509,663
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Unearned Premium (Note 1)	$ 66,330
Other Liabilities	100

Total Liabilities	$ 66,430

Guaranty Fund	$ 100,000
Other Surplus	1,343,233

Total Surplus	1,443,233

Total Liabilities and Surplus	$ 1,509,663
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STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	$ 105,180
Other Insurance Income	610
Net Losses & Loss Adjustment Expenses Incurred	(73,830)
Other Underwriting Expenses Incurred	(65,705)

Net Underwriting Income (Loss)	$ (33,746)
Investment Income	59,418
Other Income	191

Gross Profit (Loss)	$ 25,863
Federal Income Tax	(0)

Net Income (Loss)	$ 25,863
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	$ 1,483,700
Net Income (Loss)	25,863
Examination Change	(66,330)

Policyholders' Surplus, December 31, 2006	$ 1,443,233
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Unearned Premium

The Company failed to include an unearned premium reserve in the 2006 Annual Statement. As the Company converted to a non-assessable mutual during the examination period, it is required to calculate and report an unearned premium reserve. An examination change of $66,330 was made to account for an unearned premium reserve.

EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2006			$ 1,509,563
	Increase in Surplus	Decrease in Surplus	
Unearned Premium	$ 0	$ (66,330)	
	------------	------------	
Total Change	$ 0	$ (66,330)	(66,330)
Total Policyholder's Surplus Per Examination, December 31, 2006			$ 1,443,233

GENERAL COMMENTS AND RECOMMENDATIONS

Employee Benefits (Page 4)

It is recommended the Company enter into a written contract which details the provisions of the management arrangement and file the contract with the DIFP.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Lutheran Fire and Lightning Insurance Company of Lawrence County, Missouri 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 5th day of October, 2007.

My commission expires:

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

CHRISTINE VOLMERT
My Commission Expires
May 26, 2011
Cole County
Commission #07473638

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.

Vicki L. Denton

Vicki Denton, CFE.
Acting Audit Manager – Kansas City
Missouri DIFP