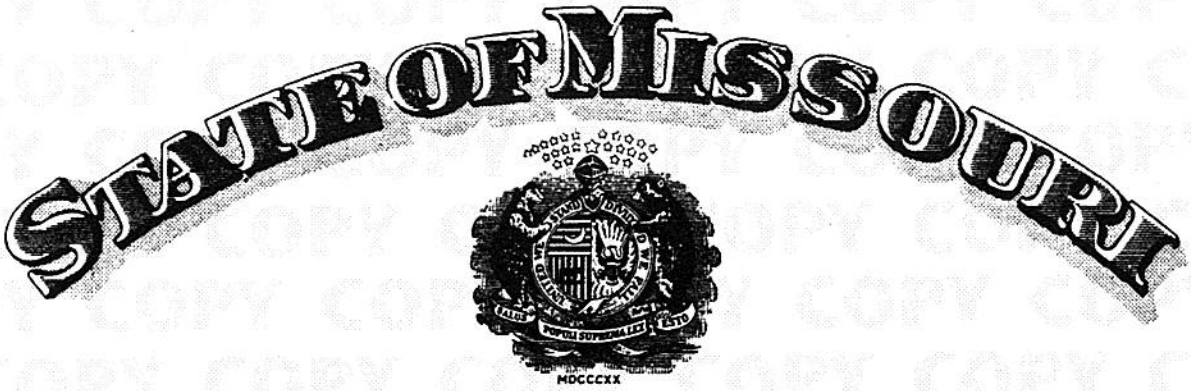
STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Osage County Farmers Mutual Aid Association 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 Osage County Farmers Mutual Aid Association 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 4th day of September, 2013.

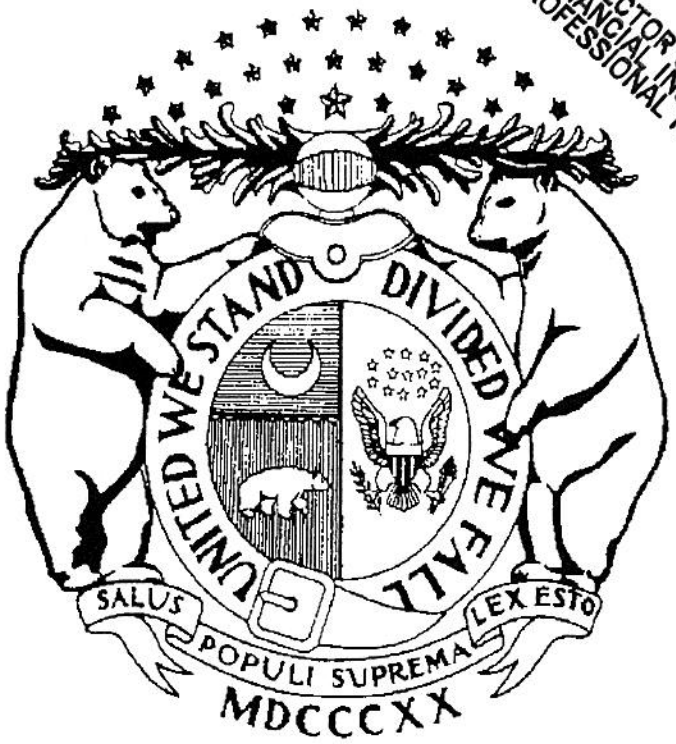
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

OSAGE COUNTY FARMERS MUTUAL AID ASSOCIATION

AS OF
DECEMBER 31, 2012

FILED
SEP 04 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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May 5, 2013
Koeltztown, 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

OSAGE COUNTY FARMERS MUTUAL AID ASSOCIATION

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 2418 County Road 521, Koeltztown, Missouri 65048, telephone number (573) 728-6528. This examination began and was concluded on May 5, 2013, 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.

Territory & Plan of Operation

Comment: It was recommended the Company adopt written agreements with its agents that include time limits for the delivery of fully completed applications to the home office, and state who is responsible for obtaining errors and omissions coverage for the agents.

Company Response: The Board of Directors agreed to adopt the listed recommendation.

Current Findings: The Board of Directors drafted, approved and executed a written agreement with each of its agents.

Policy Forms and Underwriting Practices

Comment: It was recommended the Company draft and approve a written policies and procedures manual.

Company Response: The Board of Directors agreed to adopt the listed recommendation.

Current Findings: The Board of Directors drafted and approved various policies which adequately address underwriting and inspections, investments, and director and officer responsibilities.

HISTORY

General

The Company was originally organized and incorporated in January 1890, as Farmers Mutual Aid Association of Crawford and Adjoining Townships. The Company currently operates as Osage County Farmers Mutual Aid Association.

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 second Monday in September, at the home office or at such other place and time 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. Eight members s hall 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 twenty to twenty-five times per year, and each director is compensated $80 per meeting attended.

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

Name and Address	Occupation	Term
Larry Sestak Koeltztown, Missouri	Farmer	2011-2014
Russell Schuelen Loose Creek, Missouri	Golf Course Manager/Farmer	2011-2014
Bernard Berhorst Freeburg, Missouri	Farmer	2012-2015
Sylvester Steinman Argyle, Missouri	Retired Farmer	2012-2015
Marlon Stuecken Freeburg, Missouri	Shipping Supervisor/Farmer	2010-2013
Patrick Haller Freeburg, Missouri	Retired/Farmer	2010-2013

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:

Larry Sestak	President
Bernard Berhorst	Vice-President
Marlon Stuecken	Secretary
Patrick Haller	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 conflict of interest statements noted no potential material conflict 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 $25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $25,000.

The Company carries liability coverage for its directors and officers, as well as errors and omissions coverage for it agents.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

All operations of the Company are performed by its directors. Other than wages, no additional benefits are provided by the Company.

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 coverages. The Company's policies are marketed by four licensed agents, who receive $50 for each new policy written. There is no compensation to the agent when the policy is renewed.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Cameron Mutual Insurance Company policy forms. Policies are renewed annually. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by the directors and agents. 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	$1,415,743	$ 6,922	$274,627	$313,283	$ 13,825	$ (26,872)	$ (13,047)
2011	1,428,790	0	328,648	261,440	19,365	2,011	21,376
2010	1,413,464	6,050	268,993	225,358	30,504	21,901	52,405
2009	1,364,008	9,000	215,336	65,104	36,669	33,554	70,223
2008	1,292,783	8,000	203,825	56,505	46,496	37,452	83,948

At year-end 2012, 695 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	$ 203,825	$ 214,336	$ 268,993	$ 328,648	$ 274,627
Assumed	0	0	0	0	0
Ceded	(70,911)	(70,194)	(74,215)	(81,626)	(87,822)
Net	$ 132,914	$ 145,142	$ 194,778	$ 247,022	$ 186,805

Assumed

The Company does not reinsure other companies.

Ceded

The Company's property reinsurance program is placed by broker Guy Carpenter & Company, LLC with various reinsurers (the reinsurer) under property per risk, catastrophe, and aggregate excess contracts. The lead reinsurer under the program is QBE Reinsurance Corporation, with a 25% share in the interest and liabilities of the contracts.

Under the per risk excess of loss agreement, the Company retains $45,000 for each loss, each risk, and the reinsurer's limits are $500,000 per risk and $1,000,000 per occurrence.

The catastrophe excess of loss agreement has two layers. Under layer one, the reinsurer is liable for 95% of $1 million per loss occurrence in excess of a $90,000 Company retention. Under layer two, the reinsurer is liable for an additional $2 million per occurrence in excess of the layer one Company retention and reinsurer limits. Reinstatements are available under the contract, but total liability to the reinsurer is limited to $1.9 million for layer one and $4 million for layer two for the term of the contract.

Under the aggregate excess of loss agreement, the Company's annual aggregate net retention, or attachment point, is equal to 75% of the Company's net earned premium income. The reinsurer is liable for 95% of losses in excess of this retention, limited to a total reinsurer liability of $1.9 million.

The Company's casualty business is ceded under a quota share arrangement with Cameron Mutual Insurance Company (CMIC). The Company cedes 100% of casualty premiums and losses to the CMIC and receives a 22% 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. The Company utilizes a combination of paper files and packaged software systems for policy maintenance.

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

Cash on Deposit	$ 1,402,980
Reinsurance Recoverable	12,763
Total Assets	$ 1,415,743

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2012

Net Losses Unpaid	$ 6,772
Net Loss Adjusting Expenses Unpaid	150
Total Liabilities	$ 6,922
Guaranty Fund	$ 150,000
Other Surplus	1,258,821
Total Surplus	1,408,821
Total Liabilities and Surplus	$ 1,415,743

STATEMENT OF INCOME
For the Year Ending December 31, 2012

Net Premiums Earned	$ 186,805
Other Insurance Income	1,090
Net Losses & Loss Adjusting Expenses Incurred	(172,997)
Other Underwriting Expenses Incurred	(41,770)
Net Underwriting Income (Loss)	$ (26,872)
Net Investment Income	13,825
Gross Profit (Loss)	$ (13,047)
Federal Income Tax	(0)
Net Income (Loss)	$ (13,047)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2012

Policyholders' Surplus, December 31, 2011	$ 1,428,790
Net Income (Loss)	(13,047)
Examination Adjustment – Correction of Reporting Errors (Note 1)	(6,922)
Policyholders' Surplus, December 31, 2012	$ 1,408,821

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Examination Adjustment - Correction of Reporting Errors

The Company overstated income by $6,922 due to an error in reporting of incurred losses and loss adjusting expenses. The issue was largely due to the reporting of gross outstanding loss amounts rather than net outstanding loss amounts in the calculation to convert total paid losses to total incurred losses on line 1d of Page 3 of the 2012 Annual Statement. An examination adjustment to surplus of $(6,922) was required to reconcile surplus between Page 1 and Page 5 of the 2012 Annual Statement.

EXAMINATION CHANGES

The adjustment in Note 1 resulted in a decrease of $6,922 to the total policyholder surplus reported on Page 5 of the 2012 Annual Statement. Total policyholder surplus, as reported on Page 1 of the 2012 Annual Statement, was unchanged.

SUMMARY OF RECOMMENDATIONS

Notes to the Financial Statements (Page 10)

It is recommended the Company ensure proper reporting of incurred losses and loss adjusting expenses in future Annual Statement reporting.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Osage County Farmers Mutual Aid Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
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 18th day of June, 2013.

My commission expires:

March 5, 2017

Tammy S. Rodieck
Notary Public

TAMMY S. RODIECK
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: March 05, 2017
Commission Number: 13751697

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, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP