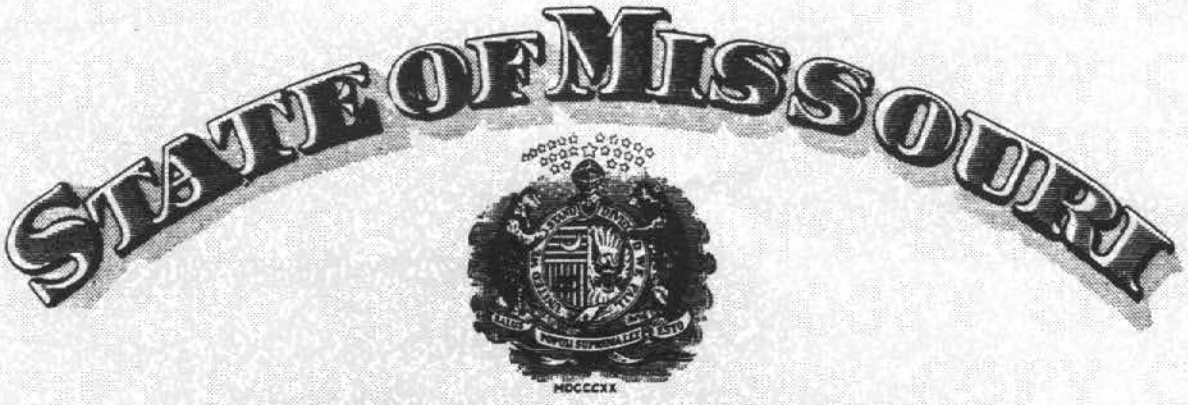


DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Southeast Missouri Mutual Fire Insurance Company as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Southeast Missouri Mutual Fire Insurance Company for the period ended December 31, 2008, 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 Southea
st Missouri Mutual Fire Insurance Company, 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 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 December 31, 2009

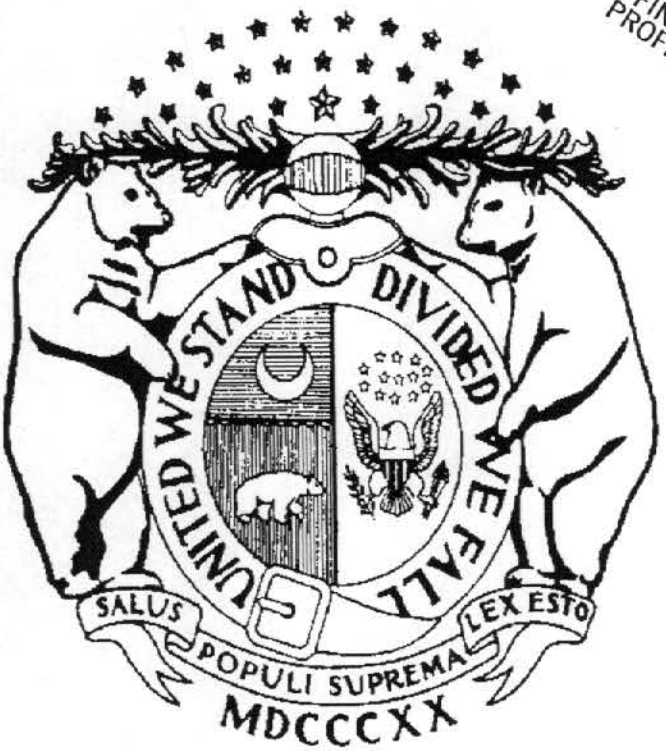
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

Southeast Missouri Mutual Fire Insurance Company

AS OF
DECEMBER 31, 2008

FILED
DEC 31 2009
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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June 15, 2009
Dexter, 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

Southeast Missouri Mutual Fire Insurance Company

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 18 East Vine Street (P.O. Box 97), Dexter, Missouri 63841, telephone number (573)624-5561. This examination began on June 8, 2009, and 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, 2003, and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, and was conducted by an examiner 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 Examiner's 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 comments or recommendations in the previous examination report.

HISTORY

General

Southeast Missouri Mutual Fire Insurance Company was originally incorporated as Stoddard County Mutual Fire Insurance Company on September 15, 1910. On May 3, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State as the Southeast Missouri Mutual Fire Insurance Company.

On December 10, 1970, the Company amended its Articles of Incorporation to establish the duration of the Company as perpetual. On March 8, 2001 the Company was authorized to operate as an Extended Missouri Mutual Insurance Company and currently operates under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the last Thursday in May at the home office of the Company or at such other place and time as may be designated by the Board of Directors. 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 currently consists of four members, each of whom serves a one-year term. All directors are policyholders of the Company. The Board generally meets quarterly. Directors are compensated $50 plus mileage for each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

Name and Address	Occupation	Term Expires
James Gregg Miller, Jr. Dexter, MO	Inspector/Adjuster/Agent	2009
Daniel Scott Wethington Dexter, MO	Farmer	2009

Darrel Pyle Dexter, MO	Farmer	2009
Marilyn Vancil Qulin, MO	Clerk	2009

Section 380.381 RSMo (Board of Directors) requires a minimum of five members serving on the Board of Directors; however, the Company's board consisted of only four members as of the examination date. The Company is directed to comply with Section 380.381 RSMo (Board of Directors) and maintain a board of at least five directors.

Immediately following the annual membership meeting, the Board of Directors elects the following officers for a one-year term: President, Vice-President and Secretary-Treasurer. Officers serving at December 31, 2008 were:

Darrel Pyle	President
Marilyn Vancil	Vice-President
Gary Trammell	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 conflict of interest statements were reviewed for the period under examination, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments were made to the Articles of Incorporation or the Bylaws 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. The examination report as of December 31, 2003 was reviewed and accepted by the Company's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of $250,000. The coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an aggregate limit of $2,000,000.

Each of the Company's agents carries errors and omissions coverage. The liability limits vary for each agent and range from $1,000,000 to $10,000,000, depending upon the amount of business the agent writes. The Company does not reimburse agents for their errors and omissions coverage.

Other insurance coverages carried by the Company include workers compensation, property insurance on the home office and contents, commercial liability, commercial lines and commercial umbrella.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five full-time employees, three office assistants and an inspector/adjuster. Salaries are determined by the Board of Directors. Employees are entitled to paid vacation and paid sick leave, and are provided life insurance, health insurance and a Simple IRA plan. The Company maintains an employee handbook and employee job descriptions.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company operates as a Missouri Mutual Insurance Company under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in all counties of Missouri.

The Company's policies are sold by approximately twenty licensed agents/agencies who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by Grinnell Mutual Reinsurance Company which have been approved by the Missouri DIFP.

Policies are written for a three-year term. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

Inspections are performed by a full-time inspector/adjuster. Claims adjusting functions are also performed by the full-time inspector/adjuster. An independent adjuster may be employed on more difficult claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2008	$1,068,245	$ 79,561	$1,724,297	$ 511,568	$29,814	$32,693	$ 54,464
2007	1,027,035	92,185	1,702,029	795,865	33,166	(162,180)	(135,435)
2006	1,453,712	377,652	1,653,092	1,148,492	42,391	(371,453)	(335,637)
2005	1,487,349	75,652	1,590,920	439,074	49,905	(48,363)	(4,909)
2004	1,474,973	58,368	1,544,759	295,076	24,474	179,396	201,046

The amounts in this table do not include examination changes.

At year-end 2008, 2,274 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:

	2004	2005	2006	2007	2008
Direct	$ 1,544,759	$ 1,590,920	$ 1,653,092	$ 1,702,029	$ 1,724,297
Assumed	0	0	0	0	0
Ceded	(472,543)	(537,450)	(522,735)	(648,998)	(567,473)
Net	$ 1,072,216	$ 1,053,470	$ 1,130,357	$ 1,053,031	$ 1,156,824

Assumed

The Company does not assume any reinsurance.

Ceded

The Company carries reinsurance through Grinnell Mutual Reinsurance Company of Grinnell, Iowa (the reinsurer). The following is a summary of the Company's reinsurance coverage.

Individual Occurrence of Loss Excess With Aggregate Excess Plan

This agreement, effective January 1, 1995, covers all policy forms and endorsements issued by the Company when such forms and endorsements have been filed with and accepted by the reinsurer. The Company's individual occurrence of loss (IOL) limit is $100,000. The reinsurer's limit of liability is detailed in a loss limitation schedule. Exposures that exceed the loss limitation schedule may be reinsured under the facultative provisions discussed below. Under the aggregate excess portion of the agreement, the reinsurer indemnifies the Company for 100% of the aggregate net losses in excess of the defined retention limit. For 2008, the retention limit ("attachment point") was $885,555.

Facultative Reinsurance

Within thirty days of insuring or increasing coverage on a specific risk, the Company may cede all or part of the risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on an individual basis.

Special Personal Property Endorsement

The Company cedes 100% of the liability to the reinsurer on items insured on the special personal property endorsement.

Earthquake Agreement

The Company has an agreement with the reinsurer to write earthquake coverage on forms supplied by Grinnell. Rates are determined by the reinsurer. Agents must be licensed by the Company and approved by the reinsurer. The Company is responsible for premium billing and collection.

The Company's reinsurance program is not in compliance with 20 CSR 200-12.030 (Extended Missouri Mutual Companies' Financial Reinsurance Requirements). The regulation requires the reinsurance program to either limit the Company's net per risk retention to 10% of surplus, or prevent a greater than 20% decrease in surplus based on a 90% loss ratio, or prevent a greater than 15% decrease in surplus due to any one occurrence. Neither the Company's individual occurrence of loss retention of $100,000 nor the aggregate excess of loss attachment point of $885,555 provides the adequate protections to meet any of these criteria. The Company should review its reinsurance program and take the necessary actions to ensure its reinsurance program is in compliance with the regulation.

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's accountant, Jean and Company, CPA, compiles the Company's financial statements, performs an annual audit of the Company's financial statements, prepares the Statutory Annual Statement and prepares the Company's federal income tax return.

The Company experienced a significant decrease in surplus during the examination period. Total surplus as of December 31, 2004, of $1,416,605 has decreased to $752,850 per the current examination. Also, in a supplement to the 2008 Annual Statement, the Company states that its unearned premium calculation as of 12/31/08 is $869,427. The Company is assessable and not required to report an unearned premium; however, as noted in the Missouri Mutual Annual Statement Instructions, the inclusion of an unearned premium provides a more realistic representation of a company's financial position. Had this unearned premium been included on the 2008 Annual Statement, the Company's surplus would be less than $0. The outlook does not appear to have improved due to the large number of claims received relating to the severe ice storm in January and other storms thus far in 2009. It is recommended the Company actively monitor expenses in relation to premiums and review all other aspects of its operations with the focus of returning the Company to profitability and increasing surplus. Furthermore, the Company is directed to formulate a business plan and file the plan with the DIFP. This plan should include detailed budgets and projections over at least a five year horizon. The plan should also outline the Company's strategies and plans to remain a going concern.

According to the Company's 2008 CPA Audit Report, the Company Secretary/Treasurer is currently financing the construction of an addition to the Company home office building on a lot adjacent to the current home office building. The Company plans to purchase the building for approximately $150,000 from the Secretary/Treasurer upon the completion of the construction project, which was expected occur in 2009. Per 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments), the Company may invest in home office real estate having an asset value of no more than 25% of surplus in excess of the guaranty fund without prior approval of the Director of the DIFP. It appears the asset value of the current real estate plus the addition will exceed the 25% limitation set forth in the regulation. The Company is directed to obtain written approval from the Director of the DIFP prior to investing in the home office addition, as required by 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments).

Effective June 30, 2009, 20 CSR 200.12.020 (Extended Missouri Mutual Companies' Approved Investments) will require that no more than 5% of surplus be invested in any one mutual fund and no more than 10% of surplus be invested in mutual funds in total. The Company currently exceeds both of these limitations. The Company is directed to adjust its investment mix to comply with this regulation or to request approval from the DIFP to exceed the investment limitations.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, 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, 2008

Stocks (Note 1)	$ 191,343
Real Estate (Note 2)	63,912
Cash on Deposit	694,861
Other Investments	18,848
Total Assets	$ 968,964

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Losses Unpaid (Note 3)	$ 86,239
Ceded Reinsurance Payable (Note 4)	97,812
Commission and Overwrite Payable	27,176
Payroll Tax Payable	4,887
Total Liabilities	$ 216,114
Guaranty Fund	$ 100,000
Other Surplus	652,850
Total Surplus	752,850
Total Liabilities and Surplus	$ 968,964

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Premiums Earned	$ 1,156,824
Net Losses & Loss Adjustment Expenses Incurred	(490,653)
Other Underwriting Expenses Incurred	(633,478)
Net Underwriting Income (Loss)	$ 32,693
Investment Income	$ 29,814
Other Income	72
Gross Profit (Loss)	$ 62,579
Federal Income Tax	(8,115)
Net Income (Loss)	$ 54,464

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	$ 934,220
Net Income (Loss)	54,464
Examination Changes	(235,834)
Policyholders' Surplus, December 31, 2008	$ 752,850

NOTES TO THE FINANCIAL STATEMENTS

Note #1 (Bonds)	**$ 0**
Note #1 (Stocks)	**$ 191,343**

The Company improperly included two mutual funds in the Bonds account on the 2008 Annual Statement. The total of the funds was $239,581. The Company should include mutual funds in the Stock account on future Annual Statements. An examination change was made to reclassify the value of the funds from Bonds to Stocks.

The Company improperly reported its mutual fund investments at cost. Per the Missouri Mutual Annual Statement Instructions, the excess of book value over market value is considered a nonadmitted asset. The Company should value its investments at the lower of cost or market value in the future. An examination change was made to reduce the value of the Stocks account by $49,738 to reflect the market value of these investments.

Note #2 (Real Estate) **$ 63,912**

The Company reported the value of its home office at original cost, without provisions for accumulated depreciation, on the 2008 Annual Statement. The Company's home office should be valued at depreciated cost instead of original cost in the future. An examination change of $49,543 was made to reflect the depreciated cost of the building.

Note #3 (Losses Unpaid) **$ 86,239**

The Company understated its unpaid loss liability on the 2008 Annual Statement. The Company should develop procedures to ensure that the Unpaid Losses account on future Annual Statements is complete and includes all outstanding claims. An examination change of $38,741 was made to reflect additional losses paid in 2009 but incurred in 2008.

Note #4 (Ceded Reinsurance Payable) **$ 97,812**

The Company failed to accrue a liability for unpaid reinsurance premiums on the 2008 Annual Statement. The Company should maintain a liability for its unpaid reinsurance and any other outstanding payments in the future. An examination change of $97,812 was made to reflect the Company's December 2008 reinsurance liability that was paid in 2009.

EXAMINATION CHANGES

Total Policyholder Surplus per 2008 Annual Statement			$ 988,684
	Increase in Surplus	Decrease in Surplus	
Bonds (Note 1)	0	239,581	
Stocks (Note 1)	189,843	0	
Real Estate (Note 2)	0	49,543	
Losses Unpaid (Note 3)	0	38,741	
Ceded Reinsurance Payable (Note 4)	0	97,812	
Total Increase/Decrease in Surplus	$ 189,843	$ 425,677	
Net Increase/(Decrease) in Surplus			(235,834)
Total Policyholder Surplus Per 2008 Examination			$ 752,850

GENERAL COMMENTS AND RECOMMENDATIONS

Management (Page 3)

The Company is directed to comply with RSMo 380.381 (Board of Directors) and maintain a board of at least five directors.

Reinsurance – Ceded (Page 7)

The Company's reinsurance program is not in compliance with 20 CSR 200-12.030 (Extended Missouri Mutual Companies' Financial Reinsurance Requirements). The Company should review its reinsurance program and take the necessary actions to ensure the program is in compliance with the regulation.

Accounts and Records (Page 7)

It is recommended the Company actively monitor expenses in relation to premiums and review all other aspects of its operations with the focus of returning the Company to profitability and increasing surplus. Furthermore, the Company is directed to formulate a business plan and file the plan with the DIFP. This plan should include detailed budgets and projections over at least a five year horizon. The plan should also outline the Company's strategies and plans to remain a going concern.

The Company is directed to obtain written approval from the Director of the DIFP prior to investing in the home office addition, as required by 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments).

The Company is directed to adjust its investment mix to comply with 20 CSR 200.12.020 (Extended Missouri Mutual Companies' Approved Investments) or to request approval from the DIFP to exceed investment limitations.

Notes to the Financial Statements (Page 11)

The Company should include mutual funds in the Stock account on future Annual Statements.

As required by the Missouri Mutual Annual Statement Instructions, the Company should value its investments at the lower of cost or market in the future.

The Company's home office should be valued at depreciated cost instead of original cost in the future.

The Company should develop procedures to ensure that the Unpaid Losses account on future Annual Statements is complete and includes all outstanding claims.

The Company should maintain a liability for its unpaid reinsurance bill and any other outstanding payments in the future.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Southeast Missouri Mutual Fire Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz 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.

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 30th day of July, 2009.

My commission expires: 7-12-13

Notary Public

J. A. JASPERSON
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
CITY OF ST. LOUIS
MY COMMISSION EXPIRES: JULY 12, 2013
COMMISSION # 09741209

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, CPA, CFE
Audit Manager – Kansas City
Missouri DIFP