REPORT OF THE
FINANCIAL EXAMINATION OF

SCOTT COUNTY FARMERS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

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STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

December 12, 2007
Sikeston, 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

SCOTT COUNTY FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 912 South Kingshighway (P.O. Box 631), Sikeston, Missouri 63801, telephone number (573) 472-1406. This examination began on September 10, 2007, and was concluded on December 12, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope 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.

Insurance Products and Related Practices

Comment: It was recommended that property inspections be completed at least every three years or upon policy renewal.

Company Response: The Company has implemented an annual renewable policy that is followed up with an inspection of insured property every three years or as needed.

Current Findings: The Company has an adequate property inspection program in place.

Accounts and Records

Comment: In accordance with Section 380.611 RSMo., it was recommended the Company submit its new management agreement with the latest fee percent to the DIFP for approval.

Company Response: The amended management agreement was submitted to and approved by the DIFP.

Current Findings: The amended management agreement was submitted to the DIFP as recommended and subsequently approved by the DIFP.

Comment: In accordance with Section 380.471 RSMo., it was recommended that the Company submit documentation to the DIFP and obtain approval to invest in the stock mutual funds currently held by the Company.

Company Response: The Company does not invest in stock mutual funds.

Current Findings: As of December 31, 2006, the Company did not report any investment in stock mutual funds.

HISTORY

General

The Company was organized in 1890 as Scott County Farmers Mutual Aid Society for Home Insurance. The Company changed its name to Scott County Farmers Mutual Insurance Company in November 1967. The Company has a Certificate of Authority dated January 22, 1998, 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 last Friday in January at the home office of the Company or at such other place as designated by the Board of Directors. Special meetings 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 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, and directors receive $125 per each meeting attended.

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

Name and Address	Occupation	Term
Donald Gosche 2819 State Highway A Chaffee, Missouri	Retired	2005-2008
Cameron S. Borders 2578 Magnolia Cape Girardeau, Missouri	Cable Company Employee	2005-2008
Carl Merideth 604 Maple Sikeston, Missouri	Farm Equipment Business Owner	2006-2009
Connie Borders 127 Greenbrier Road Sikeston, Missouri	Company Secretary/Treasurer	2006-2009

Dale Merideth 112 Marian Sikeston, Missouri	Inspector/Adjuster	2004-2007
Ken Murphy 3018 Patriot Cape Girardeau, Missouri	Business Owner	2004-2007

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, 2006, were as follows:

Donald Gosche	President
Dale Merideth	Vice-President
Connie Borders	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 requires its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were 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. In addition, the Company's written policies and procedures were reviewed. The minutes and records of the Company appear to properly reflect the 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 per claim deductible.

The Company's agents are responsible for obtaining errors and omissions coverage.

The Company owns no real or personal property; therefore, it does not carry any property insurance coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has no employees. The services for the daily operations of the Company are provided under a management agreement with Borders Insurance Services, Inc. (BISI). Under the terms of the agreement, BISI provides complete management control of the Company and receives a fee equal to 11% of gross assessments, less returns. BISI is responsible for expenses including salaries, employee relations, travel items, rent, record storage, postage and telephone. The Company is responsible for all other expenses. The Company appears to have made adequate provisions for the benefits in the 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, wind and liability coverages. The Company's policies are sold by seven licensed agencies, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses MAMIC, ISO and 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 are performed by the agents, the Company manager and an independent inspector. Adjusting services are performed by an independent adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net
2006	$357,119	$22,823	$932,400	$1,364,567	$11,377	$ (22,584)	$(11,207)
2005	469,115	123,612	1,005,821	647,465	12,896	(109,066)	(97,886)
2004	548,671	105,282	1,063,936	678,454	8,578	8,703	15,977
2003	499,623	73,470	1,002,923	618,047	9,994	(95,259)	(86,501)
2002	553,875	40,990	863,185	688,920	14,106	(17,301)	(5,128)

At year-end 2006, 1,893 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	$ 863,185	$1,002,923	$1,063,936	$1,005,821	$ 932,400
Assumed	0	0	0	0	0
Ceded	(290,134)	(431,964)	(429,371)	(371,926)	(334,743)
Net	$ 573,051	$ 570,959	$ 634,565	$ 633,895	$ 597,657

Assumed

The Company does not reinsure other companies.

Ceded

The Company has multiple reinsurance agreements placed by intermediary Guy Carpenter with various reinsurers. The reinsurers' individual participation percentages are the same in each of the agreements and are as follows: Arch Reinsurance Company – 37.25%, QBE Reinsurance Corporation – 27.00%, Aspen Insurance U.K. Limited – 16.50%, The Toa Reinsurance Company of America – 13.00%, and Employers Mutual Casualty Company – 6.25% (collectively referred to as the "reinsurer").

The Company's liability risks are reinsured under the casualty quota share reinsurance agreement. Risks are ceded 100% to the reinsurer, and the Company receives a 27.5% ceding commission.

The Company's property risks are ceded under per risk and excess of loss agreements. Under the property agreements, loss adjustment expenses are covered 100% and extra contractual obligations (ECO) and excess policy limits (EPL) are covered 90% by the reinsurer.

The per risk excess agreement has two layers. Under the first layer, the Company retains $25,000 per risk and the reinsurer is responsible for 100% of the excess losses, subject to limits of $75,000 per risk and $150,000 per occurrence. The Company retains an annual deductible of $40,000. Reinsurance premium for layer one is 15.5% of written premium, subject to a minimum premium of $124,000. The Company is eligible for a contingent profit commission, equal to 50% of the reinsurer's profit after a 25% reinsurer management expense is considered.

Under the second layer, the Company retains $100,000 per loss and the reinsurer is responsible for 100% of the excess loss, subject to limits of $200,000 each risk and $300,000 each loss occurrence. The Company retains an annual deductible of $25,000. Reinsurance premium for layer two is 8.0% of written premium, subject to a minimum premium of $64,000.

The Company has three aggregate excess of loss agreements, including an underlying agreement, aggregate agreement and supplemental agreement. ECO and XPL losses are limited to $22,500 each claim in each of the aggregate excess of loss agreements. Under the underlying aggregate excess of loss agreement, the reinsurer is liable for 97.5% of losses in excess of 62.5% of the Company's earned premium, limited to 97.5% of 10.0% of the Company's earned premium. Reinsurance premium is 2.8% of earned premium, subject to a minimum annual premium of $11,120.

Under the aggregate excess of loss agreement, the reinsurer is liable for 97.5% of losses in excess of the greater of $432,100 or 72.5% of the Company's earned premium, limited to 97.5% of the lesser of $2,033,900 or 227.5% of earned premium. Reinsurance premium is 7.5% of earned premium, subject to a minimum annual premium of $44,700.

Under the supplemental aggregate excess of loss agreement, the reinsurer is liable for 100% of losses in excess of the Company's retention and reinsurer's limit under the aggregate excess of loss agreement, limited to 100% of 500% of the Company's earned premium. Reinsurance premium is 2.0% of earned premium, subject to a minimum annual premium of $14,900.

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

Company records are maintained manually by the Company at the home office. The Company utilizes the computer service firm of Rural Computer Consultants (RCC). Copies of the Company's paper records are forwarded to RCC for input into the system. Electronic records are stored off-site at the RCC offices. The CPA firm of Van de Ven, LLC compiles the Company's financial statements and completes the annual statement and tax filings.

The Company has experienced net losses in four of the last five years. The Company has taken measures to improve upon its operating results including the adoption of rate increases, an aggressive inspection program, higher deductibles and policy fees. It is recommended the Company continue to closely monitor its financial results and implement any further measures necessary to return the Company to profitability.

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

Bonds	$ 15,000
Cash on Deposit	283,526
Reinsurance Recoverable on Paid Losses	35,225
Federal Income Tax Recoverable	1,720
Interest Due & Accrued	1,972
Ceded Reinsurance Receivable	19,676

Total Assets	$ 357,119
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Net Losses Unpaid	$ 15,000
Accounts Payable	7,823

Total Liabilities	$ 22,823

Guaranty Fund	$ 150,000
Other Surplus	184,296

Total Surplus	334,296

Total Liabilities and Surplus	$ 357,119
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STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	$	597,657
Other Insurance Income		18,951
Net Losses & Loss Adjustment Expenses Incurred		(387,654)
Other Underwriting Expenses Incurred		(251,538)

Net Underwriting Income (Loss)	$	(22,584)
Investment Income		11,377

Gross Profit (Loss)	$	(11,207)
Federal Income Tax		(0)

Net Income (Loss)	$	(11,207)
		========

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	$	345,503
Net Income (Loss)		(11,207)

Policyholders' Surplus, December 31, 2006	$	334,296
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NOTES TO THE FINANCIAL STATEMENTS

There are no notes to the financial statements.

GENERAL COMMENTS AND RECOMMENDATIONS

Accounts and Records (Page 5)

It is recommended the Company continue to closely monitor its financial results and implement any further measures necessary to return the Company to profitability.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Scott County Farmers Mutual Insurance Company 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 11 day of Dec., 2007.

My commission expires:

May 30, 2014

Notary Public

GLORIA C. MORALES
MY COMMISSION EXPIRES MAY 30, 2014
NOTARY PUBLIC
COMMONWEALTH OF MASSACHUSETTS

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