

REPORT OF
FINANCIAL EXAMINATION

**CENTRAL FARMERS MUTUAL FIRE INSURANCE
COMPANY**

As Of
December 31, 2005



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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June 20, 2006
St. Charles, MO

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Central Farmers Mutual Fire Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 5065 N. Highway 94, St Charles, Missouri, 63301; telephone number (636) 250-4155. This examination was conducted at the home office on Highway 94, St. Charles, Missouri 63301. The examination began April 17, 2006, and concluded June 20, 2006.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2001, for the period ending December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri. Information provided by the Company's independent accountant was relied upon, including cash and securities confirmations.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. **Comment:** Management and Control

The Board should develop a comprehensive policies and procedures manual to ensure consistent application of the Board's direction and policies.

Company Response:

A policies and procedures manual is being developed by the Secretary/Treasurer. This should be completed by the end of the year 2001. This manual will be submitted to the Board for approval.

Current Findings:

This activity is still in process and has been noted in recent Board meeting minutes.

2. **Comment:** Conflict of Interest

The Board should require annual conflict of interest disclosures that specifically address whether any conflicting situations exist or not.

Company Response:

All Board members have submitted current conflict of interest disclosures and will submit said document each year at our Annual Meeting.

Current Findings:

The Company provided conflict of Interest disclosures for all board members and the secretary/treasurer dated April 6, 2006.

3. **Comment:** Corporate Records

The Board of Directors should formally acknowledge receipt of the Report of Examination once this document is received. Board meeting minutes should clearly document that acknowledgement.

Company Response:

The Board acknowledged receipt of the Report of Examination at the Board meeting held on June 14, 2001. Receipt of report noted in minutes of meeting.

Current Findings:

Acknowledgement of the receipt of the report of examination was found in the Board meeting minutes from June 14, 2001. A letter with responses to the Department of Insurance dated September 4, 2001 was also reviewed.

4. Comment: Policy Forms and Underwriting Practices

The Board should require agents' agreements with all agents writing business for the Company. These agreements should outline the Company's expectations for those agents and the compensation arrangements with each.

Company Response:

An agent's agreement is being written by the writing agents. This agreement will be submitted to the Board for approval.

Current Findings:

The Company provided current signed agent's and agency agreements for all agents. The agreements contained adequate expectations and detailed the compensation arrangements.

HISTORY

General

The Company was originally organized in 1896 and was granted a Certificate of Incorporation on February 4, 1896. On November 26, 1984, the Company amended its Articles of Incorporation and was issued a Certificate of Authority by the Missouri Division of Insurance. The Articles of Incorporation and Bylaws were amended again in 1987 to comply with Sections 380.201 to 380.591 RSMo (Extended Missouri Mutual Companies). In 1988, a new Certificate of Authority was issued by the Missouri Department of Insurance. On April 26, 2004 the Articles of Incorporation and By Laws were amended to make the Company an extended Missouri mutual company under Sections 380.201 to 380.651 and to make the Company non-assessable.

Management and Control

Both the Articles of Incorporation and Bylaws call for a board of nine directors to provide oversight of the Company. Each director is to serve a three-year term with three directors elected each year. Directors are elected at annual member meetings held on the second Saturday in March. However, currently the board only has seven members. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Eight members constitute a quorum at annual member meetings and proxy voting is not allowed.

The Board of Directors consisted of the following seven members as of December 31, 2005:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
James Leonhard, President 6250 North Highway 94 Portage Des Sioux, MO 63373	Farmer	2005 to 2008
Martin Orf, Vice-President 4706 Highway P Wentzville, MO 63385	Farmer	2004 to 2007
Rose Marie Leonhard 6200 North Highway 94 Portage Des Sioux, MO 63373	Retired	2003 to 2006
James Hanley 1709 Renoir Drive O'Fallon, MO 63368	Retired	2003 to 2006
Claude Boschert 5288 Blasé Station Road St. Charles, MO 63304	Farmer	2004 to 2007
Gary Dyer 1793 Highway Y St. Paul, MO 63366	Farmer	2003 to 2006
Gerard Orf 4389 Flint Stone Drive Wentzville, MO 63385	Paramedic	2004 to 2007

The minutes from the December 7, 2005 board meeting called for amending the Articles of Incorporation to reduce the number of directors from nine to seven. The Company needs to complete the necessary activity to amend their Article of Incorporation and Bylaws.

Conflict of Interest

Signed conflict of interest statements were obtained for all directors. The Company has its directors sign a conflict of interest statement on an annual basis. No apparent conflicts of interest were identified during this examination.

Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws, except for the number of directors as stated above. The Board

meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board meeting minutes indicated that the Board formally acknowledged the previous examination report. Attendance at the Board and annual meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage of \$25,000 from Allied Insurance Company. This meets the minimum suggested amount recommended by the National Association of Insurance Commissioners. The Company has three agents and subsidizes the errors and omissions coverage for those agents. Directors and officers coverage, with a limit of \$2,000,000, is provided by MAMIC Mutual Insurance Company.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has one employee, Carol Leonhard, who serves as the Company's secretary/treasurer. The Company's office is maintained at Leonhard Insurance Agency and she receives compensation equaling 10% of the premiums collected. No other benefits or pension plan is provided.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.651 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage and writes primarily in St. Charles County and surrounding counties. The Company uses three agents as its sales force.

Policy Forms and Underwriting Practices

The Company uses policy forms from the Missouri Association of Mutual Insurance Companies and the American Association of Insurance Services. The Company is currently transitioning from five-year renewable to annual renewal policies.

Inspections and underwriting are conducted by each writing agent. Reviews for initial fire and wind claims are also made by the Company's agents. Outside adjusters are used when there is a large volume of claims such as after a major windstorm.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Admitted Assets	980,697	1,042,591	1,148,444	1,192,262	1,210,488
Liabilities	176	186	394	321	327
Gross Assessments	109,845	116,360	146,317	147,651	169,609
Losses Incurred	232,505	119,719	8,598	23,522	45,504
Investment Income	49,117	49,384	45,886	41,299	39,751
Underwriting Income	11,757	63,735	54,391	2,570	(21,531)
Net Income	61,287	119,902	100,282	43,890	18,220
Policies In Force	275	275	332	326	348

These figures are based on data from annual statements provided by the Company. Losses incurred do not reflect any reinsurance recoveries. These results reflect the heavy reliance on reinsurance. Losses are relatively small and the Company generates positive net income. Investment income has been stable and the Company's premium income appears to be growing.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has reinsurance protection through four contracts with Cameron Country Mutual Insurance Company.

The Per Risk Excess of Loss Property Reinsurance Contract provides coverage in two layers. The first layer requires a Company retention of \$30,000 up to the reinsurer's limit of liability of \$100,000. The second layer begins at \$130,000 with a reinsurer's limit of liability at \$50,000. The contract has a per risk limit of \$180,000 for Commercial/Confinement risks and \$380,000 for all other risks. There is a \$700,000 per occurrence limit for both first and second layers combined. The Company pays a premium of 8% and 2% for the first and second layers respectively.

The Catastrophe Excess of Loss Property Reinsurance Contract provides coverage in two layers. The first layer calls for a Company retention of \$60,000 with reinsurer limits of \$950,000. The second layer requires a retention of \$50,000 and a reinsurer limit of \$6,000,000. There is a per risk limit of \$180,000 for Commercial/Confinement risks and \$380,000 for all other risks. The reinsurer has an annual limit of \$2,000,000 for the first layer and \$12,000,000 for the second layer.

The Aggregate Excess of Loss Property Reinsurance Contract has an attachment point of 75% of net written premium. The reinsurer covers 95% of loss up to a maximum limit of \$2,000,000

with a per risk limit of \$180,000 for Commercial/Confinement risks and \$380,000 for all other risks. The Company pays a premium of 3% for this coverage.

The Liability Quota Share Reinsurance Contract calls for no retention by the Company. The reinsurer covers 100% of all losses. The Company is paid a ceding commission of 22%.

ACCOUNTS AND RECORDS

The Company maintains financial records in both computerized and manual systems. Premium information and claims are manually recorded in a ledger.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm, Bauers, Hawkins, Ohlms & Company, LLC, prepares the Company's annual statement. The annual statement was prepared on a modified cash basis which did not include an unearned premium reserve. The Company would have sufficient surplus to accommodate such a reserve had one been established.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, 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 additional 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, and therefore were only noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	\$ 25,575
Cash on Deposit	1,184,399
Asset Write In	514
Total Assets	<u>\$ 1,210,488</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid (Note 2)	6,000
Accrued Payroll Taxes	327
Total Liabilities	<u>\$ 6,327</u>
Guaranty Fund (Note 1)	150,000
Other Surplus	1,060,161
Examination Changes (Net)	(6,000)
Total Policyholder Surplus	\$ 1,204,161
Total Liabilities and Surplus	<u>\$ 1,210,488</u>

STATEMENT OF INCOME

Net Assessments (Premiums)	\$ 84,954
Net Losses	(45,504)
Underwriting Expenses	(60,981)
Net Underwriting Income (Loss)	<u>\$ (21,531)</u>
Net Investment Income	39,751
Net Income	<u>\$ 18,220</u>

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2004	\$ 1,191,941
Net Income (reported by the Company)	18,220
Adjustment Losses Unpaid	<u>(6,000)</u>
Policyholder Surplus, December 31, 2005	<u>\$ 1,204,161</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 Guaranty Fund \$150,000

The Company did not show a guaranty fund in the annual statement. A guaranty fund is required by Section 380.271 RSMo (Guaranty fund required). The fund balance should be \$150,000, which is the minimum required based on the three lines of coverage the Company is authorized to write. This change has no effect upon the policyholder surplus of the Company.

Note 2 Gross Losses Unpaid \$6,000

The Company did not report two outstanding claims at year-end. These two unpaid claims totaled \$6,000. The Company should always report all unpaid claims in the annual statement.

EXAMINATION CHANGES

Total Policyholder Surplus per 2005 Annual Statement: \$ 1,210,161

		<u>INCREASE IN SURPLUS</u>	<u>DECREASE IN SURPLUS</u>	
Guaranty Fund	Note 1	-	150,000	
Other Surplus	Note 1	150,000	-	
Gross Losses Unpaid	Note 2	<u> </u>	<u>6,000</u>	
		150,000	156,000	
Net Increase(Decrease) in Surplus				<u>(6,000)</u>
Total Policyholder Surplus per 2005 Examination				<u>\$ 1,204,161</u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Management and Control

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The Company currently has seven directors, which conflicts with the Articles of Incorporation and Bylaws which call for nine directors. The Company needs to amend the Articles of Incorporation and Bylaws to reflect the current practices of the Company.

SUBSEQUENT EVENTS

There were no significant subsequent events.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Central Farmers Mutual Fire Insurance Company in the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

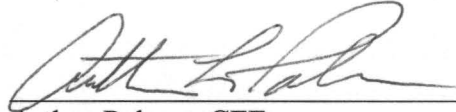
State of Missouri)

) ss

County of St. Louis City)

I, Arthur Palmer, 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 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 examiner finds reasonably warranted from the facts.

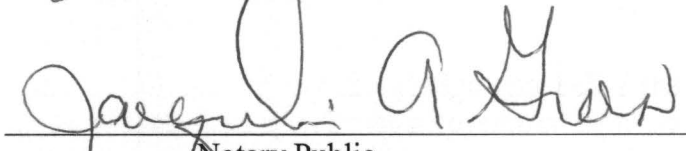
JACQUELINE A. GREEN
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires March 22, 2008


Arthur Palmer, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 20 day of June, 2006.

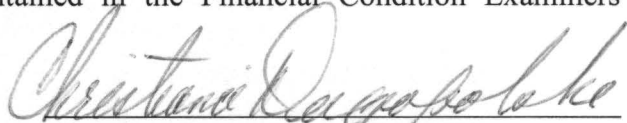
My commission expires:

3-22-2008


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.


Christiana Dugopolski, CPA, CFE
Audit Manager
Missouri Department of Insurance

Central Farmers Mutual Fire Insurance Company

5065 N. Hwy 94, St. Charles, MO 63301
636-250-4155 ♦ 800-392-2248
Fax 636-250-4151

Missouri Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

R MO INS DEPT E D
AUG 17 2006

8/16/2006

This letter is in response to the Department of Insurances' audit and it's recommendations on page 11.

Prior to the audit, Central Farmers Mutual Fire Insurance Company Board of Directors had approved a motion on December 7th, 2005 to change our articles of incorporation requirement from nine to seven members. The company has since had a lawyer draw up the necessary paperwork for review by the Board of Directors. Upon the completion of the Board of Directors review and approval the articles of incorporation and by laws changes will be submitted to the members for approval.

Sincerely,



Carol Leonhard
Secretary

P.S. Please include response in the audit as public record.