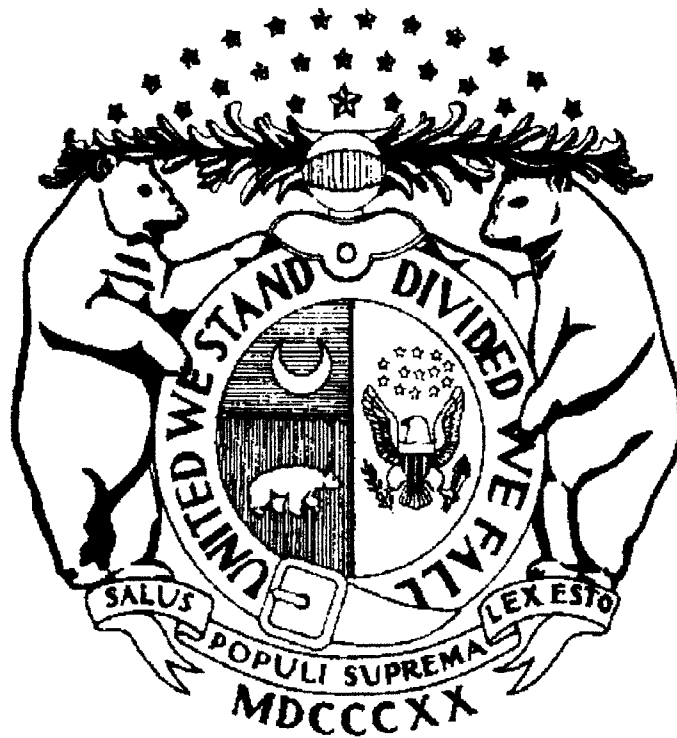


**REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY OF
MACON, MISSOURI**

**AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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May 30, 2007
Macon, 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

FARMERS MUTUAL INSURANCE COMPANY OF MACON, MISSOURI

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at Highway 63 South (P.O. Box 36), Macon, Missouri 63552, telephone number (660) 385-3171. This examination began on May 29, 2007, and was concluded on May 30, 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 Missouri Department of Insurance 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.

Assets – Mutual Funds

Comment: It was recommended the Company obtain approval from the Director for its investment in mutual funds.

Company Response: The Company obtained approval from the Director in a letter dated June 13, 2002.

Current Findings: As noted in the Subsequent Events section of the previous examination report, the Company obtained proper approval for the mutual fund investments held as of the previous examination date.

HISTORY

General

The Company was originally organized in 1894 as the Farmers Fire and Lightning Mutual Insurance Company of Macon County. In November 1954, the Company merged with Missouri Farmers Mutual Tornado Insurance Company under the name of Farmers Mutual Insurance Company of Macon, Missouri. In November 1962, the Company merged with Farmers Mutual Fire and Lightning Insurance Company of Chariton.

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 Tuesday in February at the home office of the Company or at such other place 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. Ten 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 seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and the directors are compensated \$250 per each attended meeting.

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

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Larry Shannon 24382 Nest Avenue Anabel, Missouri	Farmer	2005-2008
J. W. Hays 3612 Allendale Macon, Missouri	Lumber Yard Owner	2004-2007
J. D. Wright 32793 Highway O Keytesville, Missouri	Farmer/Plumber	2004-2007
Dean Hale 62202 Newgate Road Green City, Missouri	Real Estate Agent/Order Buyer	2006-2009
Ricky G. Shoemaker 29601 State Highway C Bevier, Missouri	Service Station Owner	2005-2008
John C. Ahern 28197 State Highway J Atlanta, Missouri	Retired/Farmer	2005-2008

Craig A. Miller
901 North 4th
Edina, Missouri

Banker

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:

Larry Shannon	Chairman
J.D. Wright	Vice-Chairman
Lester Hook	President
J.W. Hays	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, 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 of the Company 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 \$250,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$100,000 and \$125,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$3,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company utilizes only independent agents, who are required to furnish documentation of errors and omissions insurance coverage.

The Company has a business insurance policy which provides various coverages, including home office and personal property, automobile, general liability and workers compensation.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has seven full-time employees. The Company purchases life insurance for its employees and pays a portion of the long-term disability premium for its employees. Employees may also participate in a group health plan, under which the Company pays the majority of the premium for employees and their family members. Employees receive two to three weeks of vacation per year, based on years of service, and ten sick days per year. The Company appears to have made adequate provisions for the benefits in the financial statements.

The Company has a defined benefit pension plan that covers substantially all employees. The Company's independent auditors' report disclosed that the Company has not determined the cost of its defined benefit pension plan in accordance with generally accepted accounting principles (GAAP), which require the cost of the employees' pensions to be recognized over the employees' respective service periods and a liability or asset to be recognized when the accumulated benefit obligation exceeds or is less than the fair value of plan

assets. The report continued to note that the effects of this departure from GAAP on the financial statements were not reasonably determinable. According to the actuary report provided by the fund manager, as of January 1, 2006, fund assets exceeded the present value of benefits by approximately \$360,000 and no additional contributions were required at that time to avoid a funding deficiency. Per discussion with the fund manager, the actuary report of the fund as of January 1, 2007, was not completed as of the fieldwork date.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual 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 approximately 21 licensed independent agencies, who receive a commission of 18% on property and 12% on liability premiums.

Policy Forms and Underwriting Practices

The Company utilizes Grinnell Mutual Reinsurance forms as well as forms developed by the Company. The policies are renewed every three years. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by employees of the Company.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Assessment</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	<u>Net Income</u>
2006	\$6,063,219	\$ 895,397	\$2,029,113	\$1,016,468	\$272,211	\$(137,000)	\$102,266
2005	6,185,653	1,120,096	2,018,596	401,651	270,312	249,889	349,360
2004	5,584,062	867,865	1,823,249	1,906,541	241,940	(198,714)	58,310
2003	5,538,928	888,865	1,689,004	331,432	226,577	239,202	308,395
2002	5,037,067	705,318	1,470,923	619,999	269,599	(106,795)	135,856

At year-end 2006, 3,337 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:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct	\$1,470,923	\$1,689,004	\$1,823,249	\$2,018,596	\$2,029,113
Assumed	0	0	0	0	0
Ceded	(257,470)	(290,526)	(304,163)	(361,659)	(409,389)
Net	<u>\$1,213,453</u>	<u>\$1,398,478</u>	<u>\$1,519,086</u>	<u>\$1,656,937</u>	<u>\$1,619,724</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single reinsurance contract for fire, wind and liability risks. The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for

2006 was \$999,958 and the annual premium paid was \$.4796 per \$1,000 of adjusted gross fire risks in force. Property risks ceded under the agreement are limited to \$500,000 for commercial and public property, and livestock, poultry and horse operations, and limited to \$750,000 for dwellings and farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis.

The agreement also provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer and receives a 20% 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 an accrual basis. The firm of Harden, Cummins, Moss & Miller, LLC, CPAs, performs an annual 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

Bonds	\$ 3,862,420
Real Estate	33,700
Cash on Deposit	2,025,183
Computer Equipment	10,065
Federal Income Tax Recoverable	52,381
Interest Due and Accrued	22,924
Other Assets	56,546

Total Assets	\$ 6,063,220
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Net Losses Unpaid	\$ 57,584
Ceded Reinsurance Premium Payable	31,798
Unearned Premium	798,393
Federal Income Tax Payable	4,282
Other Liabilities	3,340

Total Liabilities	\$ 895,397

Guaranty Fund	\$ 150,000
Other Surplus	5,017,823

Total Surplus	5,167,823

Total Liabilities and Surplus	\$ 6,063,220
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Earned Assessments	\$ 1,670,837
Other Insurance Income	64,907
Net Losses & Loss Adjustment Expenses Incurred	(991,727)
Other Underwriting Expenses Incurred	(881,017)

Net Underwriting Income (Loss)	\$ (137,000)

Investment Income	\$ 272,211
Other Income	1,174

Gross Profit (Loss)	\$ 136,385
Federal Income Tax	(34,119)

Net Income (Loss)	\$ 102,266
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 5,065,557
Net Income (Loss)	102,266

Policyholders' Surplus, December 31, 2006	\$ 5,167,823
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.

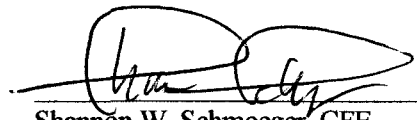
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

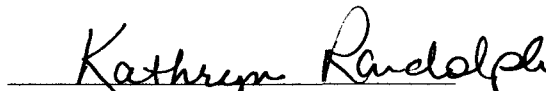
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the 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.

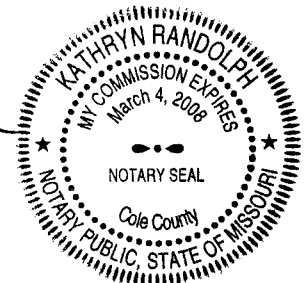

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 19th day of June, 2007.

My commission expires:

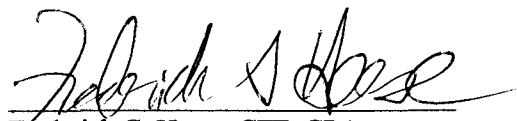
March 4, 2008


Kathryn Randolph
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.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP