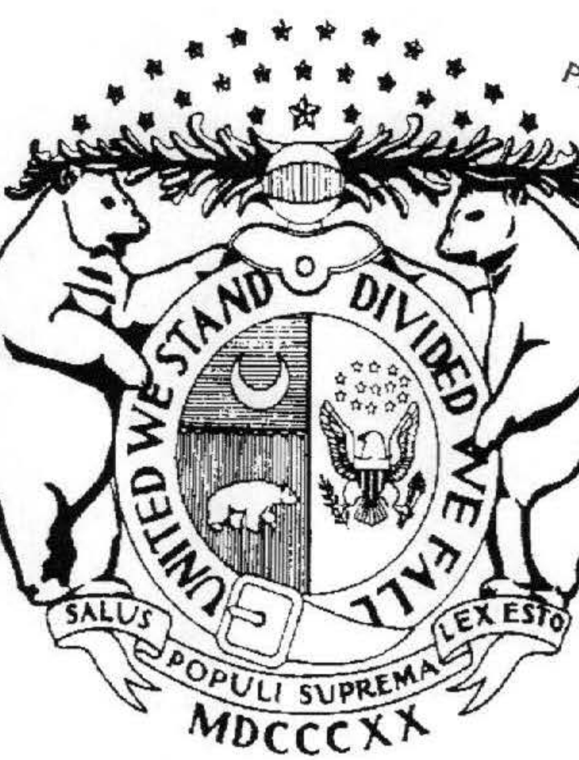
REPORT OF THE
FINANCIAL EXAMINATION OF

NIXA FARMERS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

FILED
JAN 23 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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October 9, 2008
Nixa, Missouri

Honorable Linda Bohrer, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Acting Director Linda Bohrer:

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

NIXA FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 357 Mt. Vernon (P.O. Box 367), Nixa, Missouri 65714, telephone number (417) 725-3811. This examination began on July 14, 2008, and was concluded on July 17, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, 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

There were no previous examination report comments.

HISTORY

General

The Company was originally organized and incorporated on February 11, 1922, as Farmers Mutual Fire Insurance Company of Nixa, Missouri. On January 27, 1998, the Company changed its name to Nixa Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated March 30, 1994, 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 fourth Tuesday in January 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 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 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 directors are compensated $200 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

Name and Address	Occupation	Term
Judy Hadsall 818 North Benton Springfield, Missouri	Credit Union President	2006-2009
J.T. Magness 1738 South 20th Street Ozark, Missouri	Attorney	2007-2010
Brenda Sims 724 Meramec Nixa, Missouri	Insurance Agent	2006-2009
Joe Peebles 3465 State Highway N Clever, Missouri	Retired	2006-2009
Joe Flood P.O. Box 2252 Nixa, Missouri	Insurance Agent	2007-2010
David Thornton 5191 East Farm Road 122 Springfield, Missouri	Paralegal	2005-2008
Mike Rauch 1595 Greismer Road Billings, Missouri	Farmer/Insurance Agent	2005-2008

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, 2007, were as follows:

Judy Hadsall	President
J.T. Magness	Vice-President
Keith Rollings	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 significant conflicts were noted in these disclosures.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended in 2003 to change the number of directors from six to seven and to shift the responsibility of electing corporate officers from the membership to the Board of Directors. In 2007 the Articles of Incorporation were amended to prohibit anyone for being nominated for election to the Board of Directors after they attain the age of 70 years old. The Bylaws were amended in 2007 to allow claims adjusters to be authorized check signors on the claims account.

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 \$500,000, with a \$5,000 per loss deductible. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$125,000 and \$150,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$5,000,000 and a \$25,000 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 businessowner's policy that provides property coverage for the Company's home office and contents, as well as general liability coverage. The Company also carries workers compensation coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

Employees receive two to four weeks of paid vacation per year, depending upon years of service and six personal days per year. Full time employees may participate in the Company's group health insurance and health savings account plans, which includes life insurance coverage. The Company contributes 6% of each employee's annual salary to a simplified employee pension plan individual retirement account (SEP IRA) on behalf of each employee. Each employee may contribute an additional 9% of their salary to the account. It appears the Company has made adequate provisions in its financial statements for these benefit obligations.

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 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 54 independent agents and agencies. Commission rates range from 15% to 17%, based on volume of premium written by the individual agent, with larger volume receiving the higher rate. Agents may also eligible for a profit sharing program, under which an agent is eligible to receive from 3% to 8% of the profits generated from their book of business, based on annual premiums written.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Company-developed policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by in-house adjusters. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2007	$4,158,224	$2,523,648	$5,927,675	$4,696,239	$149,482	$70,875	$240,179
2006	4,157,573	2,763,177	5,882,377	6,035,497	138,053	(585,272)	(272,736)
2005	4,100,258	2,513,717	5,785,374	2,786,019	102,398	622,281	505,997
2004	3,595,772	2,434,632	5,080,769	2,581,620	62,933	(46,726)	355,626
2003	3,072,266	2,266,750	4,564,466	5,078,279	74,272	(525,186)	(217,153)

At year-end 2007, 8,884 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:

	2003	2004	2005	2006	2007
Direct	4,564,466	5,080,769	$ 5,785,374	$ 5,868,660	$ 5,912,614
Assumed	0	0	0	13,717	15,601
Ceded	(713,425)	(1,345,601)	(1,469,741)	(1,655,642)	(1,547,669)
Net	$3,851,041	$3,735,168	$ 4,315,633	$ 4,226,735	$ 4,380,546

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 99% of the first $2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 99% of the first $3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company's reinsurance program is brokered through Guy Carpenter & Company, Inc. of Pennsylvania (Guy Carpenter) and consists of various contracts with multiple reinsurers (reinsurer).

The Company has a per risk excess of loss agreement covering property risks. The Company retains $100,000 in losses per risk and the reinsurer's limits are $300,000 per loss and $500,000 per occurrence. The reinsurer also agrees to pay loss adjusting expenses (LAE) in the same proportion as the reinsurer's paid losses to total losses incurred by the Company. Premium is calculated at 13.25% of written premium, subject to a minimum premium of $572,400. The Company is eligible to receive a contingent commission equal to 25% of the profit earned by the reinsurer on the business ceded under the contract. Participating reinsurers in 2007 included Arch Reinsurance Company (37.25%), QBE Reinsurance Corporation (27.00%), Aspen Insurance U.K. Ltd (16.50%), The Toa Reinsurance Company of America (13.0%) and Employers Mutual Casualty Company (6.25%).

The aggregate excess of loss reinsurance agreement also covers property risks. The reinsurer is liable for 97.5% of losses in excess of the greater of 70% of the Company's earned premium or $2,479,680.

The reinsurer's losses are limited to 97.5% of the lesser of 230% of the Company's earned premium or \$12,221,280. Premium is calculated at 16.75% of written premium, subject to a minimum premium of \$593,400. R+V Versicherung AG is the lead reinsurer in the contract with a 25.00% participation, with numerous other reinsurers participating at lesser percentages.

The Company has a facultative reinsurance contract for property risks, under which it may cede up to \$500,000 per risk. Premium is based on the pro rata portion of the risk ceded under the contract, and the Company receives a ceding commission of 27.5%. Participating reinsurers in 2007 included Arch Reinsurance Company (37.5%), The Hartford Steam Boiler Inspection and Insurance Company (32.5%), Aspen Insurance U.K. Ltd (15.0%), The Toa Reinsurance Company of America (11.5%) and Farmers Mutual Hail Insurance Company of Iowa (3.5%).

The Company has two agreements pertaining to liability risks. Under the casualty excess of loss agreement, the Company retains \$50,000 per occurrence and the reinsurer is responsible for the excess loss, limited to \$1,950,000. Premium is calculated at 17.75% of written premium, subject to a minimum premium of \$87,360. Participating reinsurers in 2007 included Arch Reinsurance Company (37.25%), QBE Reinsurance Corporation (27.00%), Aspen Insurance U.K. Ltd (16.50%), The Toa Reinsurance Company of America (13.0%) and Employers Mutual Casualty Company (6.25%). Under the umbrella facultative reinsurance contract, the reinsurer is liable for 95% of the first \$1,000,000 in losses and 100% of the next \$4,000,000 in losses each occurrence. Premium is equal to 95% of written premium pertaining to the first \$1,000,000 in coverage and 100% of written premium pertaining to coverage in excess of \$1,000,000. Participating reinsurers in 2007 included GE Reinsurance Corporation (55.0%), The Toa Reinsurance Company of America (30.0%) and QBE Reinsurance Corporation (15.0%).

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 CPA firm of Marberry, Miller & Bales, P.C, CPA's performs an annual audit of the Company's financial statements and prepares the 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, 2007, 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, 2007

Bonds	$ 2,269,527
Real Estate	199,960
Cash on Deposit	1,059,452
Other Investments	129,087
Reinsurance Recoverable on Paid Losses	321,685
Computer Equipment	150,387
Interest Due and Accrued	21,138
Other Assets	6,988
Total Assets	$ 4,158,224

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Net Losses Unpaid	$ 268,764
Unearned Premium	2,165,891
Federal Income Tax Payable	83,396
Account Payable	4,618
Other Taxes Payable	979
Total Liabilities	$ 2,523,648
Guaranty Fund (Note 1)	$ 1,600,000
Other Surplus (Note 1)	34,576
Total Surplus	1,634,576
Total Liabilities and Surplus	$ 4,158,224

STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Premiums Earned	$ 4,407,820
Other Insurance Income	224,235
Net Losses & Loss Adjustment Expenses Incurred	(2,798,874)
Other Underwriting Expenses Incurred	(1,762,306)
Net Underwriting Income (Loss)	$ 70,875
Investment Income	$ 149,482
Other Income	98,521
Gross Profit (Loss)	$ 318,878
Federal Income Tax	(78,699)
Net Income (Loss)	$ 240,179

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	$ 1,394,396
Net Income (Loss)	240,179
Rounding	1
Policyholders' Surplus, December 31, 2007	$ 1,634,576

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Guaranty Fund

The Company understated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements). The amount of guaranty fund per examination was $1,600,000, while the amount reported on the 2007 Annual Statement was $150,000. An examination change was made to increase the guaranty fund by $1,450,000, with a corresponding decrease of $1,450,000 to other surplus. The examination change had no affect on the total policyholder surplus balance.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the guaranty fund and resulted in no change to total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Nixa 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 16th day of October, 2008.

My commission expires:

May 18, 2012

Notary Public

KIMBERLY LANDERS
MY COMMISSION EXPIRES
May 18, 2012
NOTARY SEAL
CALLAWAY COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

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.

Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP

ACKNOWLEDGMENT

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Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 22nd day of January, 2009.

My commission expires:

May 18, 2012

Kimberly Landers
Notary Public

KIMBERLY LANDERS
MY COMMISSION EXPIRES
May 18, 2012
NOTARY SEAL
CALLAWAY COUNTY
#08558402
NOTARY PUBLIC, STATE OF MISSOURI

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Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP