



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

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

RE: Examination Report of Farmers Mutual Insurance Company of Dade County for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Dade County for the period ended December 31, 2014, 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 380.491, RSMo, adopt such report. The findings and conclusions of the report are incorporated by reference herein and are deemed to be my findings and conclusions.

Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Dade County 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) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (2) 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.

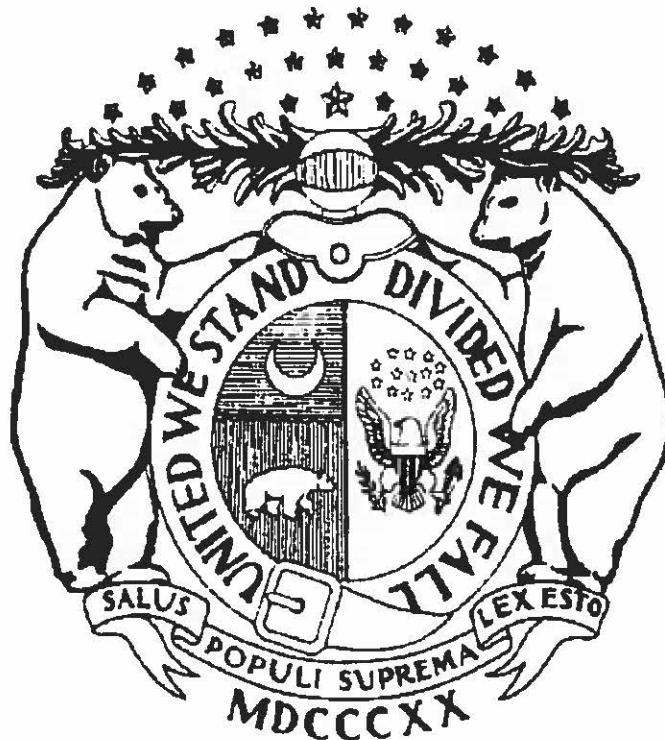
So ordered, signed and official seal affixed this 16th day of May, 2016.



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

**REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY OF
DADE COUNTY**

**AS OF
DECEMBER 31, 2014**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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February 10, 2016
Lockwood, 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

FARMERS MUTUAL INSURANCE COMPANY OF DADE COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 810 Main Street, Lockwood, Missouri 65682, telephone number (417) 232-4593. This examination began on January 19, 2016, and was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2014, 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

Notes to Financial Statements

Comment: It is recommended the Company ensure that net operating loss carryforwards are treated as non-admitted assets in future Annual Statement filings.

Company Response: The Company will forward the information regarding the recommendations in the examination report to its CPA firm and work directly with them to ensure the Company is properly reporting these items.

Current Finding: The Company did not report any operating loss carryforwards in the 2014 Annual Statement.

Comment: It is recommended the Company report future guaranty fund balances based on net insurance in-force and the provisions of Section 380.271 (Financial Reinsurance Requirements).

Company Response: The Company will forward the information regarding the recommendations in the examination report to its CPA firm and work directly with them to ensure the Company is properly reporting these items.

Current Finding: The Company properly reported its guaranty fund balances for the years under exam.

HISTORY

General

The Company was originally organized and incorporated on May 9, 1892, as Farmers Mutual Insurance Company of Dade County. In 1975, the Company was merged with Farmers Mutual Insurance Company of Wright County, with Farmers Mutual Insurance Company of Dade County being the surviving entity.

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 first Friday 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 month, and directors receive \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2014, were as follows:

| <u>Name and Address</u> | <u>Occupation</u> | <u>Term</u> |
|---|---|-------------|
| Larry Witt Dadeville, Missouri | Retired Company Inspector and Farmer | 2012-2014 |
| Larry Kenney Everton, Missouri | Business Owner | 2013-2015 |
| Helen Shouse Lockwood, Missouri | Retired Manager | 2012-2014 |
| Dale Grisham Lockwood, Missouri | Farmer | 2014-2016 |
| Steve Richter South Greenfield, Missouri | Farmer | 2013-2015 |
| Jerry Glenn South Greenfield, Missouri | Farmer | 2014-2016 |
| Sherri Wise Greenfield, Missouri | Company Manager | 2014-2017 |

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, 2014, were as follows:

| | |
|--------------|----------------|
| Larry Kenney | President |
| Helen Shouse | Vice-President |
| Sherri Wise | Secretary |
| Larry Witt | 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. A review of the executed conflict of interest statements noted no material potential conflicts disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not 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 \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for their directors and officers. The Company requires its agents to purchase errors and omissions coverage.

Other insurance coverages carried by the Company include property insurance on its home office and contents as well as premises liability insurance and workers compensation coverage.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. The benefits package offered to full-time employees includes health insurance, life insurance, dental insurance, vision insurance and paid time off. The Company also matches a percentage of the employees' contributions to individual retirement accounts.

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. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes all three of its authorized lines of business. The Company's policies are sold by sixteen independent agents, who receive a fifteen percent commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and MAMIC policy forms. The policies are renewed annually. Property inspections are performed by employee inspectors. The adjusting function is performed by an employee adjuster. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

| Year | Admitted Assets | Liabilities | Gross Premiums | Gross Losses | Investment Income | Underwriting Income | Net Income |
|------|--------------------|-------------|-------------------|-----------------|----------------------|------------------------|---------------|
| 2014 | \$3,079,945 | \$1,476,391 | \$3,233,480 | \$2,983,333 | \$ 77,222 | \$ (62,206) | \$ 15,496 |
| 2013 | 3,131,127 | 1,543,069 | 3,029,416 | 1,060,443 | 86,389 | 246,540 | 333,409 |
| 2012 | 2,379,675 | 1,125,026 | 2,796,426 | 1,626,057 | 86,989 | (304,549) | (217,080) |
| 2011 | 2,629,132 | 1,157,403 | 2,619,585 | 1,850,213 | 103,973 | (185,126) | (76,507) |
| 2010 | 2,695,830 | 1,147,594 | 2,464,224 | 1,314,554 | 111,083 | (244,080) | (125,301) |

At year-end 2014, 3,927 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>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Direct | \$3,233,480 | \$3,029,416 | \$2,796,426 | \$2,619,585 | \$2,464,224 |
| Assumed | 28,848 | 26,811 | 27,925 | 23,106 | 21,747 |
| Ceded | 789,668 | 844,578 | 986,146 | 801,702 | 796,241 |
| Net | <u>\$2,472,660</u> | <u>\$2,211,649</u> | <u>\$1,838,255</u> | <u>\$1,840,898</u> | <u>\$1,689,730</u> |

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 84% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 84% 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 5% share in the interests and liabilities of the pool.

Ceded

The Company's property reinsurance program is placed through an intermediary, Guy Carpenter & Company, Inc. and consists of various contracts with multiple participating reinsurers (reinsurer).

Under a property per risk agreement, the Company retains \$125,000 per risk and the reinsurer covers 100% of the excess, limited to \$500,000 per loss and \$1 million 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.

Under an aggregate excess of loss agreement, the reinsurer is liable in the aggregate for 100% of the ultimate net loss over and above the Company's retention which shall be equal to 80% of the Company's gross net earned premiums. For 2014, the Company's retention was \$1,727,355.

Under a casualty quota share agreement, the Company cedes 100% of the risk and premium for all casualty policies issued by the Company and receives a 30% 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 Company's records are maintained on a modified cash basis. The CPA firm of Williams and Associates prepares an annual compilation and the Company's Annual Statements. The CPA firm of Trout, Beeman & Co. performs an annual audit.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2014, 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, 2014

| | |
|------------------------------|---------------------|
| Bonds | \$ 1,932,092 |
| Real Estate | 18,344 |
| Cash on Deposit | 20,620 |
| Other Investments | 236,929 |
| Reinsurance Recoverable | 767,310 |
| Computer Equipment | 14,358 |
| Interest Due and Accrued | 8,131 |
| Prepaid Insurance | 7,087 |
| Prepaid Reinsurance Premiums | 70,060 |
| Employee Advances | 5,014 |
| | <hr/> |
| Total Assets | <u>\$ 3,079,945</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2014

| | |
|------------------------------------|-------------------------|
| Ceded Reinsurance Premiums Payable | \$ 37,902 |
| Unearned Premium | 1,168,895 |
| Borrowed Money | 184,594 |
| Accounts Payable | 3,979 |
| Accrued Commissions | 39,005 |
| Accrued Taxes | 6,783 |
| Overdrawn Bank Accounts | <u>35,233</u> |
| Total Liabilities | <u>\$ 1,476,391</u> |
| Guaranty Fund | \$ 150,000 |
| Other Surplus | <u>1,476,391</u> |
| Total Surplus | <u>1,603,554</u> |
| Total Liabilities and Surplus | <u>\$ 3,079,945</u> |

STATEMENT OF INCOME
For the Year Ending December 31, 2014

| | |
|---|--------------------|
| Net Assessments Earned | \$ 2,386,633 |
| Other Insurance Income | 235,684 |
| Net Losses & Loss Adjusting Expenses Incurred | (1,712,774) |
| Other Underwriting Expenses Incurred | <u>(971,749)</u> |
| Net Underwriting Income (Loss) | (62,206) |
| Net Investment Income | 77,222 |
| Other Income | <u>480</u> |
| Gross Profit (Loss) | \$ (15,496) |
| Federal Income Tax | <u>0</u> |
| Net Income (Loss) | <u>\$ (15,496)</u> |

CAPITAL AND SURPLUS ACCOUNT
December 31, 2014

| | |
|---|---------------------|
| Policyholders' Surplus, December 31, 2013 | \$ 1,588,058 |
| Net Income (Loss) | <u>(15,496)</u> |
| Policyholders' Surplus, December 31, 2014 | <u>\$ 1,603,554</u> |

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Dade County during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Jay Buschmann, AFE, examiner for the Missouri DIFP also participated in this examination.

VERIFICATION

State of Missouri)
County of Jackson)


I, Mark Nance 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.


Mark Nance, CFE, CPA
Senior Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 15th day of March, 2016.

My commission expires:

04-14-2016

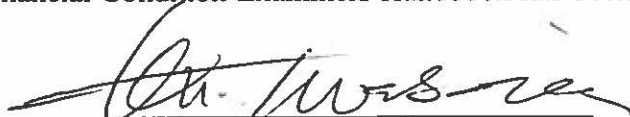

Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

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.


Levi Nwasoria, CFE, CPA
Audit Manager
Missouri DIFP