



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

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

ORDER

After full consideration and review of the report of the financial examination of Farmer's Mutual Insurance Company of Sullivan and Adjoining Counties for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the 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 Farmer's Mutual Insurance Company of Sullivan and Adjoining Counties 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 5th day of June, 2017.

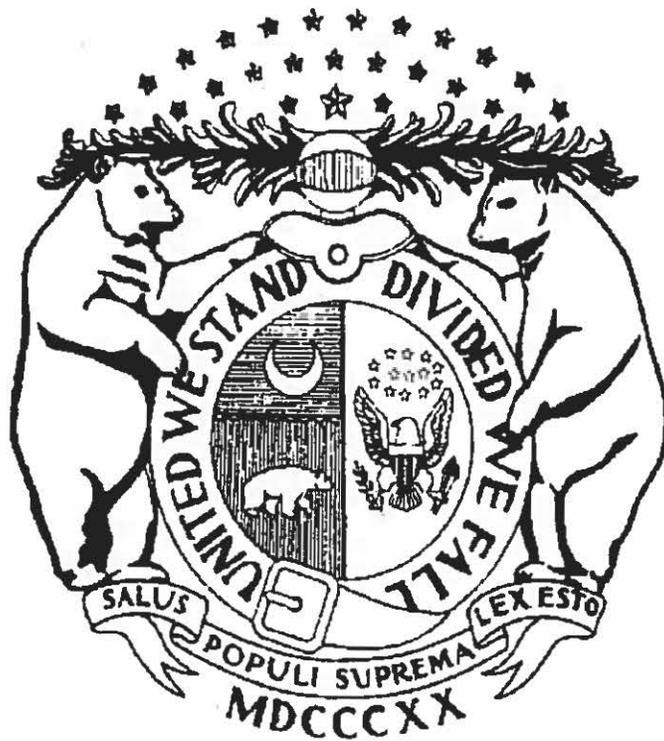


A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
FARMER'S MUTUAL INSURANCE COMPANY OF
SULLIVAN AND ADJOINING COUNTIES**

**AS OF
DECEMBER 31, 2015**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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February 6, 2017
Milan, 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

Director Huff:

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

**FARMER'S MUTUAL INSURANCE COMPANY OF SULLIVAN
AND ADJOINING COUNTIES**

hereinafter referred to as such, or as the "Company". The Company's home and principal place of business is located at 115 South Market Street (P.O. Box 96), Milan, Missouri 63556, telephone number (660) 265-3596. This examination began on February 6, 2017, was concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2010 and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). The current full-scope examination covers the period from January 1, 2011, through December 31, 2015, and was also conducted by examiners from the 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.

HISTORY

General

The Company was organized in February 1896 as Farmers Mutual Insurance Company of Sullivan County, Missouri. On November 22, 1940, the Company reorganized, changed its name to Farmers Mutual Insurance Company of Sullivan and Adjoining Counties, and received a Certificate of Incorporation.

On October 27, 2003, the Company received a Certificate of Authority from the Missouri Department of Insurance and changed to an Extended Missouri Mutual Company under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Bylaws, the annual meeting of the Company's members is held on the first Thursday in March at the home office of the Company or at such other place and time as may be designated by the Board of Directors.

The corporate powers of the Company are vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. The Board of Directors meets every quarter. All Directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2015, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Clyde Jr. Carr Green City, Missouri	Farmer	2015-2018
Melvin Hall Unionville, Missouri	Business Owner & Insurance Agent	2013-2016
Carol E. Mino, Harris, Missouri	Company Manager/Agent	2013-2016
Randy Kincanon Green City, Missouri	Farmer & Insurance Agent	2015-2018

Dan Lentz Browning, Missouri	Farmer	2013-2016
David E. Lentz Browning, Missouri	Farmer & Insurance Agent	2014-2017
Robert Williams Humphreys, Missouri	Retired Veterinarian	2015-2018
John T. Mino Harris, Missouri	Farmer & Insurance Agent	2014-2017
Darrin Embree Green City, Missouri	MODOT Supervisor	2014-2017

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary/Treasurer. The officers of the Company serving at December 31, 2015 were as follows:

Melvin Hall	President
David E. Lentz	Vice-President
Carol E. Mino	Secretary/Treasurer

Conflict of Interest

The Company requires its directors to complete conflict of interest disclosures on an annual basis. The completed conflict of interest statements are reviewed by the Board of Directors for any possible conflicts requiring resolutions.

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. 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 \$35,000. The fidelity bond coverage of the Company meets the minimum coverage of \$25,000 suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers and errors and omissions liability coverage for its agents, as well as property coverage on its home office and contents and general liability insurance.

EMPLOYEE BENEFITS

The Company has one full-time employee and one part time employee. The Company's manager is also the agent for the Company and is compensated through salary and commission payments. The full-time employee receives paid time off.

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, windstorm, and liability coverage statewide, and offers all of these coverages.

The policies are sold by five licensed producers, who are also Directors of the Company. The producers receive a 20% commission on all new business and 15% commission on all other business. The Company advertises in local newspapers and through various promotional activities in the community.

Policy Forms and Underwriting Practices

The Company utilizes a combination of AAIS, MAMIC, and custom policy forms. The policies are written on an annual renewable basis. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured or mortgagee, as applicable.

Property inspections are performed by the writing agent prior to the issuance of a policy and every three years thereafter. Underwriting is performed by the Company's manager. Small claims are adjusted by the office manager, and other claims are handled by contracted adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2015	\$849,713	\$128,800	\$307,955	\$124,241	\$ 8,147	\$ 1,292	\$ 9,439
2014	842,025	130,551	312,439	168,812	8,352	(64,938)	(56,586)
2013	891,546	123,486	287,659	118,470	7,692	(15,089)	(7,397)
2012	892,380	116,923	276,372	81,369	8,659	7,862	16,521
2011	869,085	110,149	268,033	336,371	10,119	16,088	26,207

At year-end 2015, there were 409 policies 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:

	2015	2014	2013	2012	2011
Direct	\$307,955	\$312,439	\$287,659	\$276,372	\$268,033
Assumed	0	0	0	0	0
Ceded	100,964	103,750	96,870	85,209	80,648
Net	\$206,991	\$208,689	\$190,789	\$191,163	\$187,385

Assumed

The Company does not assume any reinsurance.

Ceded

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

Under the property per risk excess of loss agreement, the Company retains \$50,000 per risk and the reinsurer covers 100% of the excess, limited to \$500,000 per risk and \$1 million per occurrence. The unlimited aggregate excess of loss agreement covers property risks. The reinsurer is liable for 100% of losses which exceed 75% of the Company's gross net earned premium income during the year.

Under the casualty quota share agreement, the Company cedes 100% of the casualty premiums and losses to the reinsurer, and the reinsurer's liability is limited to \$500,000 per policy. The special casualty excess of loss agreement pertains to casualty policies with limits in excess of \$500,000, and adds additional reinsurer limits of \$500,000.

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. Accounting records for premiums, claims and financial reporting are maintained on a personal computer-based package provided by IMT Computer Services. Paper copies of the declaration pages, along with other pertinent policy information are kept in a locked, fire-proof file cabinet.

A public accounting firm, Van de Ven, LLC, performs financial statement compilation, prepares the annual statement, and provides tax preparation services for the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2015 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.

ASSETS
December 31, 2015

Real Estate	\$ 18,365
Cash on Deposit	822,104
Reinsurance Recoverable	6,015
Computer Equipment	1,289
Interest Due and Accrued	821
Prepaid Insurance	<u>1,119</u>
 Total Assets	 <u>\$ 849,713</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2015

Net Losses Unpaid	\$ 300
Ceded Reinsurance Premium Payable	6,241
Unearned Premium	121,540
Payroll Tax	129
Accounts Payable - Other	<u>590</u>
 Total Liabilities	 <u>128,800</u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>570,913</u>
 Total Surplus	 <u>720,913</u>
 Total Liabilities and Surplus	 <u>\$ 849,713</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2015

Net Premiums Earned	\$ 206,274
Other Insurance Income	16,901
Net Losses & Loss Adjusting Expenses Incurred	(108,416)
Other Underwriting Expenses Incurred	<u>(113,467)</u>
Net Underwriting Income (Loss)	1,292
Net Investment Income	<u>8,147</u>
Gross Profit (Loss)	\$ 9,439
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 9,439</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2015

Policyholders' Surplus, December 31, 2014	\$ 711,474
Net Income (Loss)	<u>9,439</u>
Policyholders' Surplus, December 31, 2015	<u>\$ 720,913</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Farmer's Mutual Insurance Company of Sullivan and Adjoining Counties during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Marc Peterson 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.

Marc Peterson
Marc Peterson, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 20th day of March, 2017.

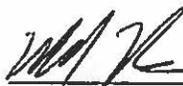
My commission expires:

March 30, 2019 *Hailey Luebbert*
Notary Public

HAILEY LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: March 30, 2019
Commission Number: 15634366

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.



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