STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Drake-Beemont Mutual Insurance Company December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Drake-Beemont Mutual Insurance Company for the period ended December 31, 2009, 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 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Drake-Beemont Mutual Insurance Company 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) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations, if any, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) 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 17th day of June 2011.

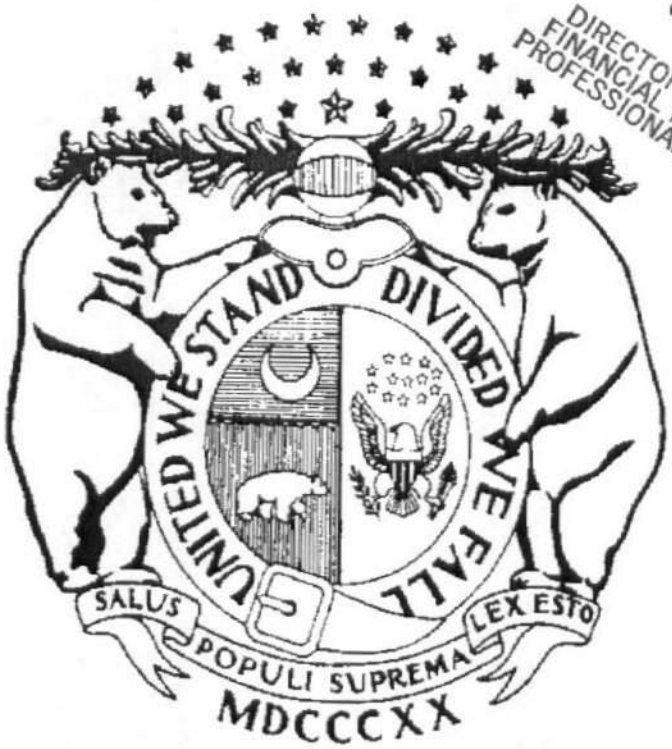
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

DRAKE – BEEMONT MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

FILED
JUN 17 2011
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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April 19, 2011
Center, 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

RALLS COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 110 South Public Street (P.O. Box 20), Center, Missouri 63436, telephone number (573) 267-3551. This examination began on January 18, 2011, and concluded on January 19, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, 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

The comments, recommendations and notes of the previous examination report dated December 31, 2004, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Losses Unpaid

Comment: The Company should ensure that all unpaid claims are processed in a timely manner for the necessary reserve to be established.

Company Response: "We are very prompt and thorough about setting reserves for all unpaid claims. We have made updates on keeping our reserves current."

Current Findings: The Company appeared to process claims in a timely manner and adequately establish associated reserves during the examination period.

Unrecorded Liabilities

Comment: The Company should accrue for the December Board of Director fees or reimburse each Director before year's end.

Company Response: "We will pay the Board of Directors fees by the end of the year in which they are incurred. We will make a practice of doing this every year."

Current Findings: The Company adequately settled Board of Director fees prior to year-end during the examination period.

HISTORY

General

The Company was originally organized and incorporated on May 27, 1890, as Ralls County Farmers Fire Insurance Association. In 1959, the Company changed its name to Ralls County Farmers Mutual Fire Insurance Company. The Company changed its name to Ralls County Mutual Insurance Company in 1991.

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 third Monday 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 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 addressed in the Articles of Incorporation or Bylaws.

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 nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated $100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2009, were as follows:

Name and Address	Occupation	Term
Russell D. Baker Perry, Missouri	Agricultural Engineer/Retired	2008-2011
Richard E. Dryden Hannibal, Missouri	Agricultural Engineer/Agent/ Retired Fireman	2007-2010
Roger C. Green Vandalia, Missouri	Agricultural Engineer/Auctioneer	2008-2011
William W. Hart Center, Missouri	Agricultural Engineer/Agent	2009-2012
Donald LaRue Monroe City, Missouri	Insurance Broker/Agent	2009-2012
Laura D. Power Perry, Missouri	Domestic Engineer/Agent	2009-2012
Linda Tatman New London, Missouri	Retired Secretary	2008-2011
Michael Houchins Frankford, Missouri	Insurance Broker/Agent/ Used Car Salesman	2007-2010
James A. Woollen New London, Missouri	Agricultural Engineer	2007-2010

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, 2009, were as follows:

Donald LaRue	President
James A Woollen	Vice-President
Laura D. Power	Secretary
Richard E. Dryden	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 signed statements noted five of the nine directors disclosed they are also agent/adjusters for the Company. In addition, one of these director/agents disclosed that his wife is the Company Office Manager.

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 period under examination.

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 $50,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is $75,000. It is recommended the Company increase its fidelity bond coverage to a minimum limit of $75,000.

The Company carries liability coverage for its directors and officers. The Company's agents are responsible for purchasing errors and omissions coverage, and the Company reimburses each agent up to $800 for the cost of this coverage.

The Company also carries general liability, home office building and office contents coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time and two part-time employees. The benefits package offered to the employees includes matching funds to individual retirement accounts and 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, 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 seven agents, who receive commissions of 16.667% and $18.00 per hour for adjusting services.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections are performed by the agents. Adjusting functions are performed by the agents and independent adjusters. 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
2009	$2,330,838	$714,487	$1,359,370	$1,237,959	$65,155	$ (253,456)	$(188,313)
2008	2,270,975	468,306	1,260,895	890,782	87,036	(192,114)	(112,275)
2007	2,350,661	523,523	1,212,220	500,355	90,833	(67,279)	16,978
2006	2,259,054	464,531	1,144,729	1,404,576	82,629	(368,538)	(293,435)
2005	2,538,310	447,653	1,120,006	373,233	67,809	36,021	97,523

At year-end 2009, 2,351 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:

	2005	2006	2007	2008	2009
Direct	$1,120,006	$1,144,729	$1,212,220	$1,260,895	$1,359,370
Assumed	18,237	18,289	20,081	19,853	20,072
Ceded	(428,084)	(436,978)	(447,591)	(405,201)	(414,119)
Net	$ 710,159	$ 726,040	$ 784,710	$ 875,547	$ 965,323

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 95% of the first $2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 95% 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 4% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a per risk excess of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess section of the agreement, the Company retains $50,000 for each loss and the reinsurer's limits are $550,000 per exposure.

Under the aggregate excess of loss section of the agreement, the Company's annual aggregate net retention, or attachment point, is equal to 70% of the Company's net written premium for the year. The reinsurer is liable for 100% of losses in excess of this retention.

Under the casualty quota share section of the agreement, the Company cedes 100% of the risk and premium for liability policies, and receives a 25% 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 a modified cash basis. An outside CPA firm, Van de Ven, LLC, performed an annual agreed-upon procedures engagement and completed the Company's Annual Statement and tax filings for all years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2009, 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, 2009

Bonds	$ 338,788
Stocks (Note 1)	246,645
Real Estate	250,983
Cash on Deposit	1,272,462
Other Investments	157,586
Reinsurance Recoverable	28,888
Computer Equipment	3,397
Federal Income Taxes Recoverable	6,440
Interest Due and Accrued	10,813
Asset Write-Ins	14,836
Total Assets	$ 2,330,838

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2009

Losses Unpaid	$ 206,700
Unearned Premium	486,607
Liability Write-Ins	21,180
Total Liabilities	$ 714,487
Guaranty Fund (Note 2)	$ 150,000
Other Surplus (Note 2)	1,466,351
Total Surplus	$ 1,616,351
Total Liabilities and Surplus	$ 2,330,838

STATEMENT OF INCOME
For the Year Ending December 31, 2009

Net Premiums Earned	$ 926,733
Other Insurance Income	61,303
Net Losses & Loss Adjustment Expenses Incurred	(769,473)
Other Underwriting Expenses Incurred	(472,019)
Net Underwriting Income (Loss)	$ (253,456)
Investment Income	65,155
Other Income	(12)
Gross Profit (Loss)	$ (188,313)
Federal Income Tax	(0)
Net Income (Loss)	$ (188,313)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2009

Policyholders' Surplus, December 31, 2008 (Note 1)	$ 1,802,669
Net Income (Loss)	(188,313)
Unrealized Gain on Marketable Securities	720
2008 Federal Income Tax Overpayment	1,275
Policyholders' Surplus, December 31, 2009	$ 1,616,351

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Stocks

The entire Stock account balance of $246,645 consisted of an investment in a single mutual fund. This balance is equal to approximately 15% of policyholder surplus at December 31, 2009, which exceeds both the single-issuer limit of 5% and the aggregate limit of 10% imposed by 20 CSR 200-12.020 (Extended Missouri Mutual Companies' Approved Investments). The Company should ensure its level of investments in mutual funds complies with the limitations of the regulation.

Note 2 – Guaranty Fund

The Company's "Guaranty Fund" balance of $263,500 reported at December 31, 2009, exceeded the minimum requirements per Section 380.271 RSMo. (Financial Reinsurance Requirements) of $150,000. An examination change was made to reduce the "Guaranty Fund" balance by the difference of $113,500, and increase the "Other Surplus" balance by a corresponding amount. The change had no effect on total policyholder surplus.

EXAMINATION CHANGES

The only examination change was related to a reclassification of $113,500 from "Guaranty Fund" to "Other Surplus" (See Note 2 above). The reclassification had no effect on the total policyholder surplus balance.

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond (Page 4)

The Company should increase its fidelity bond coverage to a minimum limit of $75,000.

Notes to the Financial Statements (Page 11)

The Company should ensure its level of investments in mutual funds complies with the limitations of the regulation.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Ralls County 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 14th day of April, 2011.

My commission expires:
SUSAN M. GREENFIELD
Notary Public - Notary Seal
State of Missouri, County of Boone
Commission # 08479801
My Commission Expires Oct. 2, 2012

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.

Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP