

**REPORT OF THE
FINANCIAL EXAMINATION OF
KNOX COUNTY MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

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

JEFFERSON CITY, MISSOURI

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July 31, 2007
Edina, 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

KNOX COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at Highway 6 East (P.O. Box 245), Edina, Missouri 63537, telephone number (660) 397-2383. This examination began on July 30, 2007, and was concluded on July 31, 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 DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no comments, recommendations, or notes in the previous examination report dated December 31, 2001.

HISTORY

General

The Company was originally established on January 31, 1891 and was incorporated on December 26, 1894, as Farmers Mutual Insurance Company of Knox County. In 1985, the Company changed its name to Knox County Mutual Insurance Company.

The Company has a Certificate of Authority dated December 18, 2003, 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 March at the home office of the Company or at such place designated by the Board of Directors. 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 nine 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 \$70 per each meeting attended.

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>
Robert E. Poore Rural Route 2, Box 113 Hurdland, Missouri	Farmer/Agent/Adjuster	2005-2008
Larry Walker Rural Route 1, Box 109 Knox City, Missouri	Farmer/Agent/Adjuster	2006-2009
James R. Glasgow Rural Route 3, Box 102 Edina, Missouri	Farmer	2005-2008
James Rudd P.O. Box 153 Knox City, Missouri	Automotive Business Owner	2006-2009
Joseph E. Delaney Rural Route 1 Box 29 Baring, Missouri	Farmer	2004-2007
Mark Townsend Rural Route 1 Box 94A Baring, Missouri	Mechanic/Farmer	2004-2007
Rex A Sykes 25928 Clemson Lane Hurdland, Missouri	Farmer	2004-2007
Cheryl Priebe 705 South 4 th Street Canton, Missouri	Ambulance Technician	2005-2008
Barbara Allen 21051 177 th Avenue Lewistown, Missouri	Homemaker	2006-2009

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 Walker President

Cheryl Priebe
Gary Tarpein

Vice-President
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 potential conflicts of interest were disclosed. However, it was noted that two of the directors are also agents of the Company. It is recommended that directors and officers disclose all potential conflicts, including being agents of the Company, on future conflict of interest statements.

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. In addition, the Company's written policies and procedures were reviewed. The minutes and records of the Company appear to properly reflect the 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. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$750,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are required to purchase errors and omissions coverage and provide evidence of such coverage to the Company.

The Company also carries property insurance on its home office and contents, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full-time employee. The employee receives paid vacation, holidays and personal days. The Company appears to have made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual 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 4 licensed agencies, who receive a 15% commission. The agent agreements do not contain some recommended language to protect the interests of the Company. It is recommended the Company amend its agent agreements to set time limits for the delivery of fully completed applications and forms to the home office and to add provisions which address the responsibility for obtaining errors and omissions insurance.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period, with properties inspected at least every three years. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents. Agents adjust small claims while independent adjusters are utilized for more complex claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2006	\$1,409,015	\$ 0	\$439,534	\$ 7,957	\$55,177	\$ 58,545	\$114,244
2005	1,296,302	109,808	404,835	12,231	32,397	61,520	93,932
2004	1,199,593	107,021	407,074	42,838	21,410	33,107	54,668
2003	1,127,246	104,351	380,798	46,355	27,657	(6,247)	19,330
2002	1,080,381	76,817	372,092	59,479	41,568	(59,942)	(9,506)

At year-end 2006, 528 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	\$103,490	\$224,481	\$225,587	\$234,781	\$222,024
Assumed	0	0	0	0	0
Ceded	(17,657)	(45,013)	(47,709)	(53,724)	(57,765)
Net	<u>\$85,833</u>	<u>\$179,468</u>	<u>\$177,878</u>	<u>\$181,057</u>	<u>\$164,259</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$30,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$130,000 and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$180,000 for commercial and confinement risks and \$380,000 for all other risks. The 2006 premium rate, as a percentage of written premiums, equaled 8% for layer one coverage and 2% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$65,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,065,000, and the reinsurer's limit is 100% of \$1,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$2,000,000 for the second layer. The 2006 premium rate was \$.1548 and \$.0837 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with an annual limit of \$2,000,000. The 2005 reinsurance rate was 3% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% 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 CPA firm of Wade Stables, P.C. 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	\$ 10,000
Stocks	1,174
Real Estate	24,629
Cash on Deposit	1,370,936
Asset Write-Ins	2,276

Total Assets	\$ 1,409,015
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Total Liabilities	\$ 0

Guaranty Fund (Note 1)	\$ 150,000
Other Surplus	1,259,015

Total Surplus	1,409,015

Total Liabilities and Surplus	\$ 1,409,015
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STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	\$ 164,259
Net Losses & Loss Adjustment Expenses Incurred	(9,036)
Other Underwriting Expenses Incurred	(96,678)

Net Underwriting Income (Loss)	\$ 58,545
Investment Income	55,177
Other Income	522

Gross Profit (Loss)	\$ 114,244
Federal Income Tax	(0)

Net Income (Loss)	\$ 114,244
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 1,186,494
Net Income (Loss)	114,244
Prior Period Adjustment – Unearned Premium	108,277

Policyholders' Surplus, December 31, 2006	\$ 1,409,015
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Guaranty Fund

The Company failed to report a guaranty fund in accordance with Section 380.271 RSMo. (Financial Reinsurance Requirements). An examination change was made to report the guaranty fund applicable to the Company of \$150,000 in accordance with the statute. The examination change resulted in a zero net effect to policyholder surplus.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the guaranty fund and resulted in a zero net change in total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

Conflict of Interest (Page 3)

It is recommended that directors and officers disclose all potential conflicts, including being agents of the Company, on future conflict of interest statements.

Territory and Plan of Operation (Page 3)

It is recommended the Company amend its agent agreements to set time limits for the delivery of fully completed applications and forms to the home office and to add provisions which address the responsibility for obtaining errors and omissions insurance.

Notes to the Financial Statements (Page 8)

It is recommended the Company report the proper guaranty fund balance in future annual statement filings.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Knox County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

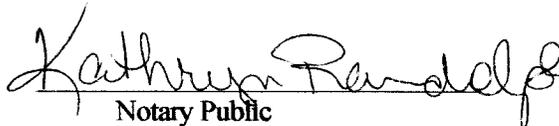
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the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

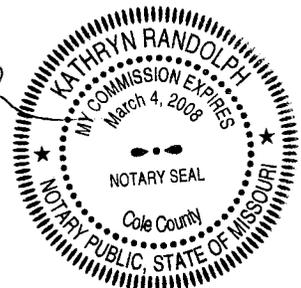

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 17th day of September 2007.

My commission expires:

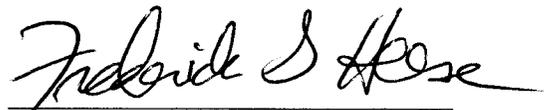
March 4, 2008


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
Chief Financial Examiner
Missouri DIFP