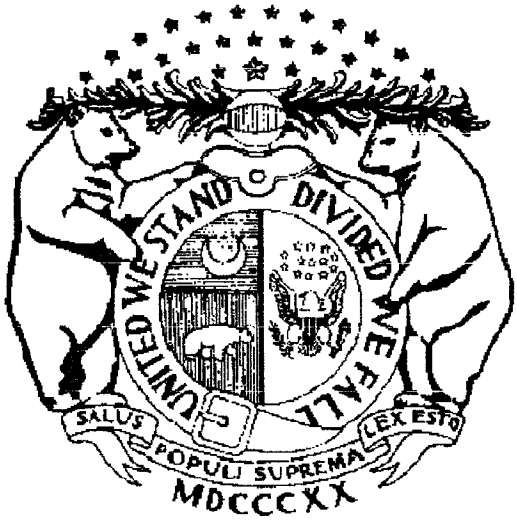
REPORT OF

FINANCIAL EXAMINATION

Meramec Valley 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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April 20, 2007
Dittmer, MO

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sir:

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

Meramec Valley Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 7742 State Route 30, Dittmer, Missouri 63023; telephone number (636) 274-2440. This examination was conducted at the home office in Dittmer, Missouri. The examination began April 16, 2007, and concluded April 20, 2007.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Department of Insurance, Financial Institutions and Professional Registration in 2002 for the year ending December 31, 2001. The current examination covers the period from January 1, 2002, through December 31, 2006, and was conducted by an examiner from the Department of Insurance, Financial Institutions and Professional Registration.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri. Information obtained from the Company's accountant was utilized to the extent deemed appropriate.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. **Comment:** Conflict of Interest

It is recommended that the Company have key personnel annually sign conflict of interest forms.

Company Response: No formal response was issued regarding the prior comments.

Current Findings: Conflict of interest statements are being completed by key personnel.

2. **Comment:** Fidelity Bond and Insurance Coverage

It is recommended that the Company increase its Fidelity Bond coverage to $75,000, the minimum amount recommended by the NAIC for a company of this size and complexity.

Company Response: No formal response was issued regarding the prior comments.

Current Findings: The Company now carries $75,000 of Employee Dishonesty coverage.

3. **Comment:** Fidelity Bond & Insurance

It is recommended that the Company obtain proof of agents' current errors and omissions liability insurance coverage.

Company Response: No formal response was issued regarding the prior comments.

Current Findings: The recommendation has not been implemented. A similar comment has been made during this examination.

4. **Comment:** Abandoned Property

It is recommended that the Company establish a procedure to ensure its compliance with Section 447.500 RSMo Unclaimed Property Act.

Company Response: No formal response was issued regarding the prior comments.

Current Findings: Company has implemented basic procedures to research outstanding checks.

HISTORY

General

The Company was organized in 1887 as the Farmers Mutual Fire Insurance Company of Big River and Meramec Townships, Jefferson County, Missouri. The Company changed its name to Farmers Mutual Insurance Company of Jefferson and Franklin Counties in October of 1903. The name Meramec Valley Mutual Insurance Company was adopted on October 26, 1970.

In January 1985, the Department of Insurance, Financial Institutions and Professional Registration authorized the Company to write fire, windstorm and liability insurance under the provisions of Sections 380.201 through 380.601 RSMO (Extended Missouri Mutual Companies).

Management and Control

A board of seven directors provides oversight of the Company. Each director serves a three-year term. Directors are elected at annual membership meetings held on the last Monday in February. The board of directors may call special meetings of the membership at any time or upon petition of one-fourth of the membership. Ten members shall constitute a quorum at any membership meeting.

The management of the Company is vested in the board of directors, which meets bi-monthly. The directors receive $150 compensation for each meeting attended and may receive additional compensation for extraordinary meetings attended. The officers receive small monthly compensation amounts.

The board of directors consisted of the following members as of December 31, 2006, holding the offices indicated:

Name/Address	Occupation	Term
Melvin Yarbrough, President 602 South Fifth DeSoto, MO 63020	Mortgage Broker	2006 to 2009
Clifton Lane, Vice President 1813 Rock Road DeSoto, MO 63020	Contractor	2006 to 2009
Sandra Henry, Secretary 7289 State Hwy. Y Dittmer, MO 63023	Underwriter – Meramec Valley Mutual Insurance Co.	2005 to 2008
Richard Meyer, Treasurer 8732 Byrnesville Road Cedar Hill, MO 63016	Insurance Agent and Agency Owner	2005 to 2008

Ann Portell 5921 State Road H DeSoto, MO 63020	Bank Employee	2004 to 2007
Susan Wilson 4593 Liberty Ridge DeSoto, MO 63020	Title Company Employee	2004 to 2007
Martin Wynn 718 Woodrow Avenue Festus, MO 63028	Manager – Meramec Valley Mutual Insurance Co.	2005 to 2008

Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors and key personnel. These statements did not disclose any known conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

Articles of incorporation, bylaws, and minutes from the annual membership meetings and board meetings were reviewed. The Company amended it bylaws in 2003 and again in 2006. The amendments were all of a minor nature. The Company is following the guidelines established in the articles of incorporation and bylaws. The board meeting minutes indicated that the board is adequately informed regarding the Company's operations. The board formally acknowledged receipt of the previous Department of Insurance, Financial Institutions and Professional Registration report of examination during its meeting on February 24, 2003. Attendance at the board and annual membership meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

Company management has acted to minimize the risk exposure of the Company. The Company has a $75,000 Employee Dishonesty policy with Hartford Casualty Insurance Company. MAMIC Mutual Insurance Company provides directors' and officers' liability coverage, with an aggregate limit of $2,000,000. The individual agencies writing for the Company carry agents' errors and omissions coverage. The Company should annually obtain proof of this coverage. The Company has a property and general liability policy for its home office from Hartford Casualty Insurance Company with a limit of $171,400 for the building, $78,300 for contents and $1,000,000 for liability. Commercial automobile coverage is obtained from Hartford Casualty Insurance Company. Employees are protected by a workers compensation policy from Hartford Underwriters Insurance Company.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has four full-time and one part-time employee. Employees are awarded personal days each year based on years of service to be used at their discretion. The Company observes seven paid holidays. Employees receive health and dental coverage after six months of service. The Company offers a Simple IRA retirement plan. The employee must work two years before contributions begin. The Company will match up to 3% of the employee's salary.

INSURANCE PRODUCTS AND RELATED PRACTICE

Territory and Plan of Operations

The Company is licensed by the Department of Insurance, Financial Institutions and Professional Registration to operate under the provisions of Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage throughout Missouri, but writes most of its business in Jefferson, Franklin and Washington counties.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by the American Association of Insurance Services and policies are written for continuous one-year terms. Inspections are performed by the agents and are completed on all new applications and then completed every three years.

Both independent adjusters and company personnel adjust property losses. Grinnell Mutual Reinsurance does the adjusting for liability claims. Payment is made after a satisfactory signed proof of loss is received.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2006	2005	2004	2003	2002
Admitted Assets	$2,849,322	$2,474,657	$1,878,888	$1,527,245	$1,685,908
Liabilities	$1,130,423	$884,605	$1,121,185	$936,824	$900,469
Gross Assessments	$2,372,907	$2,424,943	$2,400,310	$2,357,795	$1,989,600
Losses Incurred	$699,802	$540,001	$637,005	$871,575	$714,233
Investment Income	$83,745	$56,426	$30,601	$57,208	$62,734
Underwriting Income	$44,866	$775,923	$125,443	$(257,975)	$(27,785)
Net Income	$128,847	$823,349	$167,282	$(192,091)	$35,046
Policies In Force	3,454	3,502	3,851	3,663	3,807

These figures are based on data from annual statements provided by the Company. There has been a steady decline in the number of policies in force each year. However, the Company has shown an underwriting and net profit the past three years.

REINSURANCE

Assumed

The Company is part of a reinsurance pool with MAMIC Mutual Insurance Company (MAMIC). The agreement is a quota share agreement in which the Company is responsible for 2% of MAMIC's ultimate net loss on errors and omissions policies and for 2% of MAMIC's ultimate net loss on directors' and officers' liability policies.

Ceded

The Company cedes reinsurance through various agreements with Grinnell Mutual Reinsurance Company as follows:

Individual Occurrence of Loss This contract provides that the Company retains the first $100,000 of loss (wind or fire) each occurrence. The annual premium charge is 0.3054 per $1,000 of adjusted gross fire risk in force.

Aggregate Excess Reinsurance The reinsurer covers 100% of losses in excess of the Company's retention limit. The retention limit is a calculated amount that includes, but is not limited to, the Company's ten-year average fire loss ratio, gross fire risks in force and a load factor. The agreement requires larger risks (per schedule) to be submitted on a facultative basis. The Company's retention amount for 2006 was $644,591 with an associated premium rate of $0.7181 per $1,000 of gross fire risk in force.

Quota Share Dwelling The Company will cedes 90% of the liability against all perils covered by Home Guard and Home Guard Select dwelling policies in excess of $75,000.

Comprehensive Personal Liability The reinsurer covers 100% of all liability losses.

ACCOUNTS AND RECORDS

The Company maintains policyholder records on a mutual insurance company software package from Rural Computers Processing System. Financial records are developed using Intuit QuickBooks. The accounting records are maintained by the Company on a cash basis and converted to an accrual basis by the Company's CPA; David P. Linderer and Associates, PC; for annual statement purposes.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of 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, and therefore were only noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	$208,707
Real Estate	37,698
Cash on Deposit (Note 5)	1,941,143
Other Investments	213,316
Reinsurance Recoverable on Paid Losses	431,995
Interest Due and Accrued	16,018
Total Assets	**$ 2,848,877**

LIABILITIES, SURPLUS AND OTHER FUNDS

Gross Losses Unpaid (Note 1)	$229,223
Gross Loss Adjustment Expense Unpaid (Note 2)	920
Unearned Premium	887,697
Accrued Commissions	13,954
Accrued Expenses	2,343
Payroll Taxes Payable (Note 3)	-
Total Liabilities	**$1,134,137**
Guaranty Fund (Note 4)	150,000
Other Surplus	1,564,740
Total Policyholder Surplus	**$ 1,714,740**
Total Liabilities and Surplus	**$ 2,848,877**

STATEMENT OF INCOME

Net Earned Assessment / Premium Income	$ 1,537,960
Net Losses & Loss Adjustment Expense	(778,417)
Underwriting Expenses	(714,677)
Net Underwriting Income (Loss)	**$ 44,866**
Investment Income	83,745
Interest Expenses	(26)
Other Income	262
Net Profit or (Loss)	**$ 128,847**

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2005	$ 1,590,052
Net Profit/(Loss)	128,847
Examination Changes (Net)	(4,159)
Policyholder Surplus, December 31,2006	**$ 1,714,740**

NOTES TO FINANCIAL STATEMENTS

Note 1 Gross Losses Unpaid **$229,223**

An adjustment of $3,923 was made for claims unpaid at year-end but left off the reserve listing.

Note 2 Gross Loss Adj Expense Unpaid **$920**

Company did not account for claim adjusting performed during December 2006.

Note 3 Payroll Taxes Payable **$0**

The Annual Statement was showing a payable of $1,129. Documentation noticed during the exam indicates this is not a valid liability and should be removed.

Note 4 Guaranty Fund **$150,000**

The Company has not estimated the correct guaranty fund liability in its annual statement. For report purposes, $607,703 was reallocated to surplus to show the proper guaranty fund liability.

Note 5 Cash on Deposit **$1,941,143**

The December 2006 bank reconciliation omitted four checks written in 2006 from the outstanding check list. An adjustment of $445 to reduce the bank balance is necessary.

EXAMINATION CHANGES

Total Policyholder Surplus per 2006 Annual Statement: $1,718,899

	Increase In Surplus	Decrease In Surplus	
Change in Gross Losses Unpaid (Note 1)		3,923	
Change in Gross Loss Adj. Expense Unpaid (Note 2)		920	
Change in Payroll Taxes Payable (Note 3)	1,129		
Change in Guaranty Fund (Note 4)	0	0	
Change in Cash on Deposit (Note 5)		445	
Total Increase / Decrease in Surplus	1,129	5,288	
Net Increase / (Decrease) in Surplus			(4,159)
Total Policyholder Surplus per 2006 Examination			$1,714,740

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Fidelity Bond and Other Insurance ***Page 4***

The individual agencies writing for the Company carry agents' errors and omissions coverage. The Company should obtain annually proof of this coverage being in place.

SUBSEQUENT EVENTS

There were no significant subsequent events.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Meramec Valley Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Karen J. Milster, 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 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 examiner finds reasonably warranted from the facts.

Karen J. Milster

Karen J. Milster, CPA, CFE
Financial Examiner
Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 7th day of May, 2007.

My commission expires:
June 14, 2008

Notary Public

JACQUELIN LEHMUTH
Notary Public - Notary Seal
State of Missouri
County of St. Louis
My Commission Exp. 06/14/2008

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.

Christiana Dugopolski

Christiana Dugopolski, CPA, CFE
Audit Manager
Department of Insurance, Financial Institutions and Professional Registration