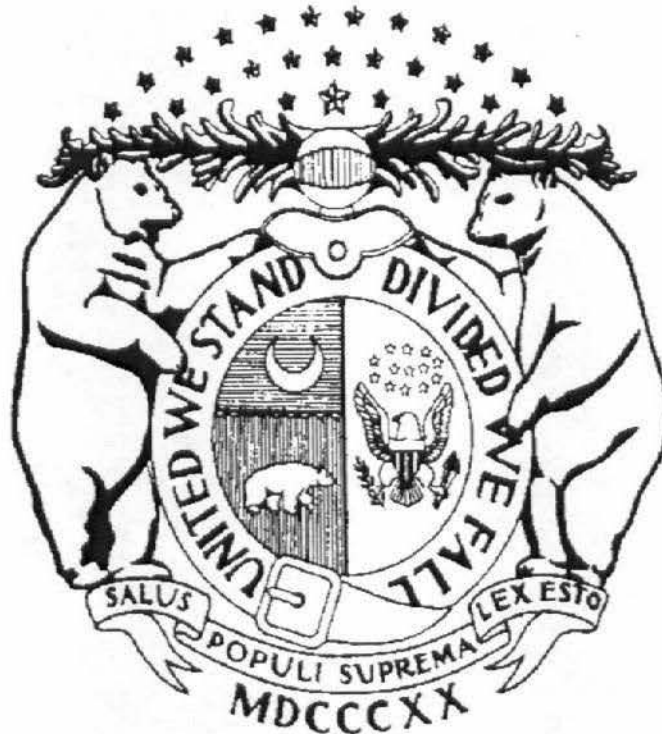


REPORT OF THE
FINANCIAL EXAMINATION OF

Perry County Mutual Insurance Company

AS OF
DECEMBER 31, 2010

FILED
OCT 14 2011
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	3
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
SUMMARY OF RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

August 25, 2011
Perryville, 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

Perry County 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 218 W. Ste. Maries Street, Perryville, Missouri 63775, telephone number (573)547-6633. This examination began on August 1, 2011, and was concluded on August 3, 2011, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2005, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2006 through December 31, 2010, 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 by 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 general comments and recommendations listed in the previous examination report.

HISTORY

General

The Company was organized on May 31, 1890 as the Perry County Farmers Mutual Fire and Lightning Insurance Company and was subsequently incorporated on August 25, 1909. On August 19, 1972 the Company amended its Articles of Incorporation to change its name to the present name, Perry County Mutual Insurance Company. On March 16, 1985 the Company amended its Articles of Incorporation to change to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo). At that time the Company received a Certificate of Authority from the Missouri DIFP.

Management

The Company is managed by a board of five directors, serving staggered, three-year terms. Directors are elected at annual member meetings held on the third Thursday of every March. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. Ten members constitute a quorum at annual meetings. Absentee ballot voting is not permitted but members may vote by proxy. The directors meet quarterly plus any special meetings and at the annual meeting. Each director receives \$550 per quarter. All directors are also policyholders.

The Board consisted of the following members as of December 31, 2010:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Michael K. Kiefer 20 Kiefer Lane Perryville, Missouri 63775	Retired Insurance Agent and Employee of the Company	2010-2013
Dale F. Schamburg 999 Schamburg Lane Perryville, Missouri 63775	Adjustor/Inspector	2009-2012
Ralph J. Schamburg 919 Edgemont Boulevard Perryville, Missouri 63775	Manager of the Company and Insurance Agent	2010-2013

Terry L. Leible
2025 Engle Creek Road
Barnhart, Missouri 63012

Shipping and Receiving Manager
Designs for Tomorrow

2008-2011

Joseph Hacker
1609 PCR 801
Perryville, Missouri 63775

Leadman
Rob Roy Nursery

2010-2011

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, 2010, were as follows:

Michael K. Kiefer
Dale F. Schamburg
Ralph J. Schamburg

President
Vice-President
Secretary-Treasurer

The Company has a management agreement with the Secretary-Treasurer-Manager, Ralph Schamburg. Under this agreement the Manager agrees to provide management services for the daily operational affairs of the Company in an efficient manner, subject to the corporate policies of the Board of Directors of the Company. This agreement has not been filed with DIFP. Under RSMo 380.611, an agreement of contract under which any person, organization or corporation is granted the exclusive or dominant right to manage or control a Missouri mutual insurance company shall be filed with and approved by the director of insurance.

The Company should file its management agreement with DIFP as required by RSMo 380.611.

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers, directors and full-time employees. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed for the period under examination. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its January 24, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$50,000 from Western Surety Company. The minimum amount recommended in the NAIC Financial Condition Examiners Handbook is \$75,000 for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of \$1 million.

Each of the Company's agents is required to purchase Errors and Omissions Liability insurance. While the policies have various limits of liability, \$500,000 is the minimum amount of coverage. The Company has property and liability insurance coverage for its office building through Grinnell Mutual Reinsurance Company (Grinnell) with limits of \$170,892 on the property, \$18,000 on the personal property and liability limits of \$1 million per occurrence and \$2 million aggregate.

The Company has liability coverage on the automobile owned by the Company. The policy is written by Grinnell Mutual and has a liability limit of \$500,000.

The Company has a workers compensation and employers liability policy with Missouri Employers Mutual Insurance Company. The workers compensation insurance applies to the workers compensation laws of the state of Missouri. The employers liability insurance has a limit of liability for bodily injury by accident of \$100,000 each accident and limits of liability for bodily injury by disease of \$100,000 per employee and a policy limit of \$500,000.

The Company should increase its fidelity bond coverage to at least \$75,000 to meet the minimum amount recommended by the NAIC.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. Employees receive life and health insurance benefits as well as paid vacation and sick leave, holidays, a cafeteria plan and a Simple IRA Plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Perry and surrounding counties. Insurance is provided on an assessable basis. The Company advertises through local TV, newspaper and radio ads, newsletters, community involvement and with other promotional items such as pens, caps and calendars. The Company also has a web site at www.pcmutual.com.

Policy Forms and Underwriting Practices

The Company writes policies for a one-year period. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses AAIS policy forms which are purchased through MAMIC. Insurance products are sold by four captive agents, five dual career agents and five independent agents. The agents receive 20% on all new and renewal business.

An onsite inspection is made of most properties by the company's adjustor/inspector prior to issuance of the policy. Renewals are inspected every third year. Claims adjusting is primarily handled by the office staff and the company adjustor/inspector. Outside independent adjustors are used occasionally.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2010	\$2,950,230	\$ 147,660	\$ 1,642,657	\$ 370,582	\$ 85,195	\$ 15,542	\$ 123,551
2009	2,956,855	283,221	1,453,131	3,949,409	94,873	(463,403)	(368,374)
2008	3,101,969	109,278	1,401,233	288,513	107,883	8,373	111,021
2007	3,068,901	105,048	1,245,888	255,551	108,010	47,623	138,553
2006	2,865,431	33,916	1,103,858	2,069,717	100,126	(208,309)	(114,120)

At year-end 2010, there were 2,480 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:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct	\$ 1,095,493	\$ 1,240,094	\$ 1,386,348	\$ 1,438,077	\$ 1,626,347
Assumed	8,419	5,794	14,890	15,054	16,310
Ceded	<u>(369,991)</u>	<u>(437,963)</u>	<u>(483,283)</u>	<u>(527,676)</u>	<u>(587,624)</u>
Net	<u>\$ 733,867</u>	<u>\$ 807,925</u>	<u>\$ 917,955</u>	<u>\$ 925,455</u>	<u>\$ 1,055,033</u>

Assumed

The Company participates in the MAMIC Mutual Insurance Company D/O and E/O reinsurance pool. An immaterial amount of assumed premiums and losses is reported due to the Company's participation in this pool.

Ceded

The Company has a reinsurance agreement with Grinnell Mutual Reinsurance Company (the reinsurer). The following coverage is provided under this agreement.

Individual Occurrence of Loss Excess

This section provides that the Company retain the first \$125,000 of fire or wind losses, each risk, each occurrence. The reinsurer is liable for 100% of losses above the retention. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year. The fire component of the premium is also subject to an experience rating adjustment based on the loss ratio for the most recent five-year period.

Aggregate Excess

This provides unlimited aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2010 contract year was \$671,308. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per \$1,000 at the end of each month during the contract year.

Facultative Reinsurance

The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage. The majority of the Company's larger risks (in excess of \$500,000) are covered through facultative agreements.

Earthquake Reinsurance

Under this section the Company cedes all earthquake premiums to the reinsurer, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

Liability Reinsurance

Under this section the Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company's reinsurance program appears to be adequate.

ACCOUNTS AND RECORDS

The Company uses the accrual basis method of accounting. Accounting records for premiums, claims and financial reporting are maintained on a personal computer based package developed by Rural Computers Consultants. The CPA firm of Van de Ven, LLC prepares financial statements and tax returns and compiles the Company's Annual Statement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2010, 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, 2010

Bonds	2,338,594
Stocks	148,215
Real Estate	95,548
Cash on Deposit	193,018
Other Investments	134,717
Computer Equipment	3,169
Interest Due and Accrued	28,533
Other Assets	8,436

Total Assets	<u><u>\$2,950,230</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Unpaid Losses	\$ 79,454
Ceded Reinsurance Premiums Payable	55,841
Other Liabilities	12,365

Total Liabilities	\$ 147,660

Guaranty Fund	\$ 196,400
Other Surplus	2,606,170

Total Surplus	2,802,570

Total Liabilities and Surplus	<u><u>\$2,950,230</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$ 1,055,033
Other Insurance Income	52,010
Net Losses & Loss Adjustment Expenses Incurred	(417,141)
Other Underwriting Expenses Incurred	(674,360)

Net Underwriting Income (Loss)	\$ 15,542

Investment Income	\$ 85,195
Other Income	22,814

Gross Profit (Loss)	\$ 123,551
Federal Income Tax	0

Net Income (Loss)	\$ 123,551
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009	\$ 2,673,634
Net Income (Loss)	123,551
Unrealized Gain on Marketable Securities	5,385

Policyholders' Surplus, December 31, 2010	\$ 2,802,570
	=====

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Management (Page 3)

The Company should file its management agreement with DIFP as required by RSMo 380.611.

Fidelity Bond and Other Insurance (Page 4)

The Company should increase its fidelity bond coverage to at least \$75,000 to meet the minimum amount recommended by the NAIC.

SUBSEQUENT EVENTS

Beginning March 1, 2011 the company is offering Mechanical Breakdown Coverage on owner occupied homes and farms. This coverage is 100% reinsured by Grinnell Mutual Reinsurance Company.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz 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.



John M. Boczkiewicz
John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 12th day of August, 2011.

My commission expires:

march 18, 2014 *Debbie L. Breiland*
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.

Michael K. Shadowens
Michael Shadowens, CFE
Audit Manager-St. Louis
Missouri DIFP

Perry County Mutual Insurance Company

Serving Perry County Since 1890

218 W. STE. MARIES ST.

PERRYVILLE, MO 63775

573-547-6633

September 16, 2011

Tammy Rodieck, Exam Coordinator
Missouri Department of Insurance
301 West High Street, Room 530, PO Box 690
Jefferson City, MO 63102-0690

RE: Financial Examination Recommendations

Dear Ms Rodieck:

This letter is in response to the recommendations made in the financial examination of Perry County Mutual Insurance Company for the period ending December 31, 2010. Our responses to these recommendations are as follows.

Management (page 3)

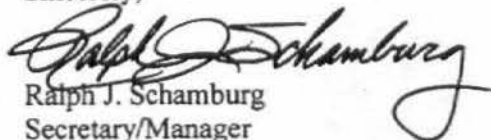
Attached please find a copy of the Management Agreement to be filed with the department as required by RSMo 380.611

Fidelity Bond and other Insurance (page 4)

Attached please find a copy of the rider letter from Western Surety Company increasing our fidelity bond coverage to \$75,000.00 as requested.

Any further information needed regarding these recommendations, please give me a call at 573-547-6633.

Sincerely,



Ralph J. Schamburg
Secretary/Manager
Perry County Mutual Insurance



Michael K. Kiefer
President
Perry County Mutual Insurance