REPORT OF
FINANCIAL EXAMINATION

PERRY COUNTY MUTUAL INSURANCE COMPANY

As Of
December 31, 2005

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SUBJECT ..... **PAGE**

SALUTATION **2**

SCOPE OF EXAMINATION **2**

PERIOD COVERED 2

PROCEDURES 2

COMMENTS – PREVIOUS EXAMINATION 2

HISTORY **3**

GENERAL 3

MANAGEMENT AND CONTROL 3

CONFLICT OF INTEREST 4

CORPORATE RECORDS 4

FIDELITY BOND AND OTHER INSURANCE **4**

EMPLOYEE BENEFITS AND PENSION PLANS **4**

INSURANCE PRODUCTS AND RELATED PRACTICES **5**

TERRITORY AND PLAN OF OPERATIONS 5

POLICY FORMS AND UNDERWRITING PRACTICES 5

GROWTH AND LOSS EXPERIENCE OF THE COMPANY **5**

REINSURANCE **6**

ASSUMED 6

CEDED 6

ACCOUNTS AND RECORDS **6**

FINANCIAL STATEMENTS **7**

ASSETS 7

LIABILITIES, SURPLUS AND OTHER FUNDS 8

STATEMENT OF INCOME 8

CAPITAL AND SURPLUS ACCOUNT **8**

NOTES TO FINANCIAL STATEMENTS **9**

EXAMINATION CHANGES **9**

GENERAL COMMENTS AND/OR RECOMMENDATIONS **9**

SUBSEQUENT EVENTS **9**

ACKNOWLEDGMENT **10**

VERIFICATION **10**

SUPERVISION **10**

June 12, 2006
Perryville, MO

Honorable W. Dale Finke, Director
Missouri Department of Insurance
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

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 was conducted at the home office in Perryville, Missouri. The examination began May 9, 2006, and concluded June 12, 2006.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2001, for the period ending December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri. Information provided by the Company's independent accountant was relied upon, including cash and securities confirmations.

Comments – Previous Examination

There were no comments from the prior examination.

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 is 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 Division of Insurance.

Management and Control

A board of five directors provides oversight of the Company. Each director serves a three-year term with no more than two elected each year. Directors are elected at annual member meetings held on the third Thursday in March. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Ten members constitute a quorum at annual member meetings. Absentee ballot voting is not permitted but members may vote by proxy.

The Board of Directors consisted of the following members as of December 31, 2005:

Name/Address	Occupation	Term
Michael K. Kiefer, President 20 Kiefer Lane Perryville, MO 63775	Agency Director of Perry County Mutual Ins. Company and Insurance Agent	2004 to 2007
Dale F. Schamburg, Vice-President 999 Schamburg Lane Perryville, MO 63775	Business Manager and Insurance Agent	2006 to 2009
Ralph J. Schamburg, Secretary/Treasurer 919 Edgemont Blvd. Perryville, MO 63775	Manager of Perry County Mutual Ins. Company and Insurance Agent	2004 to 2007
Terry L. Leible 2025 Engle Creek Road Barnhart, MO 63012	Shipping and Receiving Manager	2005 to 2008
Gary Scholl P.O. Box 95 Frohna, MO 63748	Business Owner	2005 to 2008

Conflict of Interest

Signed conflict of interest statements were obtained from all directors, employees and agents. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. 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 the previous examination report during its October 25, 2001 meeting. Attendance at the Board and annual meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company has acted to help minimize the risk exposure of the business. The Company has a fidelity bond totaling $50,000 from Western Surety Company. This meets the minimum level recommended by the National Association of Insurance Commissioners. Errors and omissions coverage (aggregate limit of $1,000,000) is obtained by the Perry County Insurance Agency and by each agent through the Missouri Association of Mutual Insurance Companies (MAMIC Mutual). Directors and officers liability coverage, with an aggregate limit of $750,000, is provided by MAMIC Mutual. The Company has a property and liability policy for its home office provided by Grinnell Mutual Reinsurance with limits of $143,639 on the property and $2,000,000 aggregate liability.

The Company also has flood insurance coverage. This was deemed necessary because the Company's office sits near a drainage basin, which has overflowed in the past. The City of Perryville has made corrections to the drainage system and the problem has not reoccurred.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has four full-time employees. Benefits provided include group health insurance, paid holidays, vacation and sick leave days, a cafeteria plan for health insurance and expenses, and an IRA contribution plan. The Company has no retirement plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm, and liability coverages throughout the state but writes primarily in Perry and surrounding counties. Eight agents produce business for the Company and receive a 20% commission on all new and renewal premiums. The Company advertises in local newspapers, radio and through various promotional activities in the community. The Company also has a web site.

Policy Forms and Underwriting Practices

The Company uses policy forms provided through MAMIC by the American Association of Insurance Services (AAIS). The Company issues continuous renewable policies with inspections and updates required every three years. The Board of Directors approves rate changes.

Initial fire and wind claim reviews are performed by the Company's manager. All liability claims are adjusted by the reinsurer. The Company uses outside adjusters or inspectors on larger, complex claims. Records of claim filings are kept in the policy file and are recorded in the computer claims system and on an Excel spreadsheet for tracking purposes.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	2001	2002	2003	2004	2005
Admitted Assets	2,489,766	2,438,282	2,586,368	2,808,794	2,996,857
Liabilities	281,518	70,179	48,533	56,063	66,306
Gross Assessments	725,963	785,668	845,300	931,834	1,003,664
Losses Incurred	288,343	337,380	222,540	159,104	151,474
Investment Income	124,834	121,624	117,451	125,033	155,060
Underwriting Income	(59,715)	95,700	15,519	72,806	78,830
Net Income	41,914	197,475	117,174	183,862	202,785
Policies In Force	1,826	1,825	1,871	1,952	1,983

These figures are based on data from annual statements provided by the Company. Losses incurred do not reflect any reinsurance recoveries. These results indicate the Company is growing in terms of premiums written and in the number of policies in force. The net income earned each year is attributed to both strong investment income and positive underwriting results.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has reinsurance through an agreement with Grinnell Mutual Reinsurance Company (Grinnell). Various larger risks (those in excess of $500,000-$750,000) are covered through facultative agreements with Grinnell. The remaining in force business is covered by the following agreements:

Individual Occurrence of Loss Limit Reinsurance Agreement This contract provides that the Company retain the first $75,000 of loss (wind or fire), each risk, each occurrence. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per $1,000 at the end of each month during the contract year.

Aggregate Excess Reinsurance Agreement This is an unlimited aggregate excess of loss agreement with an attachment point that is calculated yearly. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per $1,000 at the end of each month during the contract year.

One Hundred Percent (100%) Quota Share Liability Reinsurance Agreement This agreement cedes all of the Company's liability premium 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.

One Hundred Percent (100%) Quota Share Earthquake Reinsurance Agreement This agreement cedes all the Company's earthquake insurance premium to the reinsurer, who in turn, is responsible for all earthquake losses. The Company's ceding commission is built into the formula of the premium that the Company pays.

ACCOUNTS AND RECORDS

The Company maintains financial records primarily on an automated system. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from Rural Computer Consultants. A claims register is also maintained in an Excel spreadsheet as a backup to the computerized claims system. Cash transactions (premium receipts and checks written) are also manually recorded. An Excel spreadsheet is used to track all the Company's investment activities. Payroll records are maintained on a separate business software package.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A public accounting firm, Van de Ven, LLC, prepares the Company's financial statements, tax returns and annual statement. The annual statement was

prepared on an accrual basis. The Company does not maintain an unearned premium reserve because it is an assessable company and as such is not required to do so. Had an unearned premium reserve been established, the Company would have had sufficient surplus to meet Missouri Department of Insurance requirements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, 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 additional 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	$ 1,889,821
Stocks	461,197
Real Estate	101,539
Cash on Deposit	503,406
Computer Hardware	16,058
Accrued Interest Receivable	24,836
Total Assets	**$ 2,996,857**

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	$ 29,195
Ceded Reinsurance Payable	22,253
Federal Income Tax Payable	4,005
Accounts Payable	10,853
Total Liabilities	**$ 66,306**
Guaranty Fund (Note 1)	196,400
Other Surplus	2,734,151
Total Policyholder Surplus	$ 2,930,551
Total Liabilities and Surplus	**$ 2,996,857**

STATEMENT OF INCOME

Net Assessments (Premiums)	$ 692,781
Reinsurance Commissions	31,565
Net Losses	(171,019)
Underwriting Expenses	(474,497)
Net Underwriting Income (Loss)	**$ 78,830**
Other Income	135
Net Investment Income	135,105
Federal Income Tax	(11,285)
Net Income	**$ 202,785**

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2004	$ 2,752,731
Net Income (reported by the Company)	202,785
Changed in Unrealized Gains or Losses on Marketable Securities	(24,965)
Examination Changes (Net)	-
Policyholder Surplus, December 31, 2005	**$ 2,930,551**

NOTES TO FINANCIAL STATEMENTS

There were no notes to the financials.

EXAMINATION CHANGES

There were no examination changes made during this examination.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

There were no general comments or recommendations made during this examination.

SUBSEQUENT EVENTS

There were no significant subsequent events.

ACKNOWLEDGMENT

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

VERIFICATION

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

I, Arthur Palmer, 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.

Arthur Palmer, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 15th day of June, 2006.

My commission expires:
5/9/09

Notary Public

JULIE KATSARAS
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires 5/9//2009
Commission # 05707910

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, CPA, CFE
Audit Manager
Missouri Department of Insurance