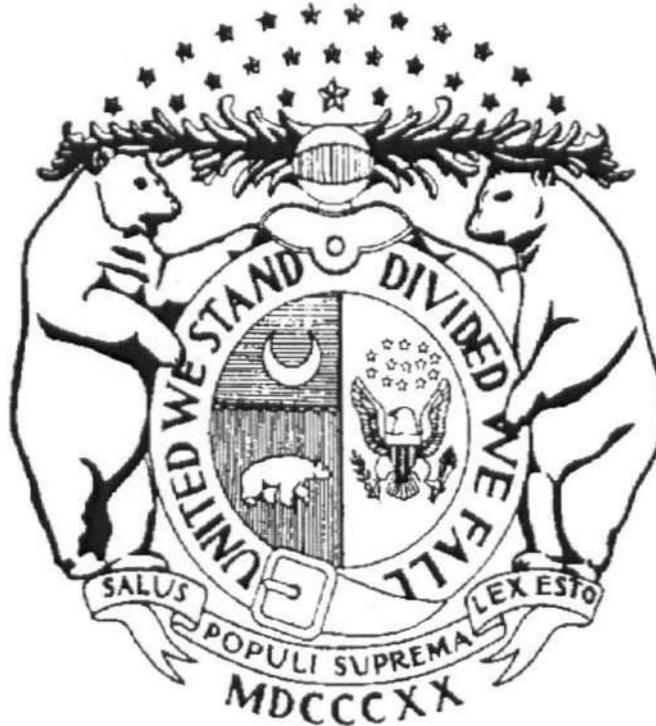


REPORT OF THE
FINANCIAL EXAMINATION OF

Pike County Mutual Insurance Company

AS OF
DECEMBER 31, 2010

FILED
SEP 30 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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August 25, 2011
Bowling Green, 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

Pike 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 22 West Main, Bowling Green, Missouri 63334, telephone number (573)324-5301. This examination began on August 8, 2011, and concluded on August 10, 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 September 18, 1895 as the Pike County Farmers Mutual Fire and Insurance Company. On April 2, 1984 the Company amended its Articles of Incorporation to comply with Sections 380.201 to 380.591 RSMo (Extended Missouri Mutual Companies). The Company was then issued a Certificate of Authority by the Missouri DIFP. In 1984 the Company changed its name to Pike County Mutual Insurance Company.

Management

The Company is managed by a board of seven directors, serving staggered, three-year terms. Directors are elected at annual member meetings held on the third Tuesday of every February. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. Eight members constitute a quorum at annual meetings. Voting by proxy is not permitted. The board meets monthly. Directors receive \$50 for local meetings and \$100 per day plus mileage and hotel for out of town meetings. 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>
Wayne Gamm 16146 Pike 280 Bowling Green, Missouri 63334	Farmer	2011-2013
Robert Thomas Meyer 22941 Pike 222 Eolia, Missouri 63344	Farmer	2011-2013
Gilbert Schuckebrook 13522 Pike 406 Bowling Green, Missouri 63334	Farmer	2009-2011
Eugene B. Traynor 2983 Highway V Vandalia, Missouri 63382	Retired Farmer	2009-2011

Mark Fisher 16439 Pike 292 Bowling Green, Missouri 63334	Lawyer/Prosecuting Attorney	2010-2012
Wayne Morris P.O. Box 84 Bowling Green, Missouri 63334	Business Owner	2010-2012
Mike Bankhead 17018 Highway W Clarksville, Missouri 63336	Commercial Produce Farmer	2011-2013

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:

Wayne Gamm	President
Gilbert Schuckebrock	Vice-President
Marie Niemeyer	Secretary-Treasurer

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. 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 September 12, 2006 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of \$50,000 from Cameron Mutual Insurance Company. This coverage meets the minimum amount recommended in the NAIC Financial Condition Examiners Handbook 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 \$2 million.

Each of the Company's agents carries Errors and Omissions Liability insurance with a minimum limit of liability of \$1 million. The Company purchases the coverage for its captive agents, while independent agents are required to purchase their own coverage.

The Company has property and liability insurance coverage for its office building through Cameron Mutual Insurance Company with limits of \$225,000 on the property, \$35,000 on the personal property and liability limits of \$1 million per occurrence and \$2 million aggregate.

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 \$500,000 each accident and limits of liability for bodily injury by disease of \$500,000 per employee and a policy limit of \$500,000.

The Company's insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees and two part-time employees. Full-time employees receive life and health insurance benefits as well as paid vacation, sick leave and holidays.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance 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 Pike and surrounding counties. Insurance is provided on a non-assessable basis. Advertising is done through local newspaper and radio ads and with promotional items such as

pens, caps and calendars. The Company sponsors a local scholarship in each of the 3 local high schools and participates in the MAMIC Scholarship Program. Employees and directors are encouraged to participate in local civic groups, churches and golf tournaments. The Company has a web site at www.pikecountymutual.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 primarily uses AAIS policy forms which are purchased through MAMIC. Insurance products are sold by two captive agents and seven independent agents. The captive agents receive 12% commissions and the independent agents receive 15% commissions on all new and renewal business.

An onsite inspection is made prior to the issuance of policies. Renewals are inspected every third year. Inspections are performed by Central Consulting and Adjusting and reviewed by the office manager. Claims adjusting is performed by Central Consulting and Adjusting and by Billings Mutual Insurance Company.

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	\$2,300,793	\$ 299,406	\$ 849,026	\$ 611,274	\$ 74,294	\$ (16,626)	\$ 46,030
2009	2,250,240	298,895	820,906	151,393	90,198	194,728	269,316
2008	2,008,530	340,839	808,309	305,387	70,716	44,857	104,763
2007	1,984,108	402,830	800,034	282,630	81,316	18,902	89,168
2006	1,791,628	299,518	800,093	493,185	67,678	24,592	86,638

At year-end 2010, there were 1,352 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	\$ 781,804	\$ 779,953	\$ 788,456	\$ 800,834	\$ 827,279
Assumed	18,289	20,081	19,853	20,072	21,747
Ceded	<u>(186,563)</u>	<u>(206,457)</u>	<u>(239,621)</u>	<u>(234,579)</u>	<u>(241,835)</u>
Net	<u>\$ 613,530</u>	<u>\$ 593,577</u>	<u>\$ 568,688</u>	<u>\$ 586,327</u>	<u>\$ 607,191</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 \$50,000 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 \$293,560. 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.

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 premium 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	1,420,625
Stocks	1,000
Real Estate	63,583
Cash on Deposit	603,149
Other Investments	177,326
Reinsurance Recoverable on Paid Losses	10,869
Computer Equipment	881
Federal Income Tax Recoverable	3,985
Interest Due and Accrued	19,375

Total Assets	<u><u>\$2,300,793</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2010

Unpaid Loss Adjustment Expenses	\$ 550
Ceded Reinsurance Premiums Payable	19,635
Unearned Premium	272,644
Other Liabilities	6,577

Total Liabilities	\$ 299,406

Guaranty Fund	\$ 150,000
Other Surplus	1,851,387

Total Surplus	2,001,387

Total Liabilities and Surplus	<u><u>\$2,300,793</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

Net Premiums Earned	\$ 596,492
Other Insurance Income	52,645
Net Losses & Loss Adjustment Expenses Incurred	(324,155)
Other Underwriting Expenses Incurred	(341,608)

Net Underwriting Income (Loss)	\$ (16,626)

Investment Income	\$ 74,294
Other Income	97

Gross Profit (Loss)	\$ 57,765
Federal Income Tax	11,735

Net Income (Loss)	\$ 46,030
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2010

Policyholders' Surplus, December 31, 2009	\$ 1,951,345
Net Income (Loss)	46,030
Unrealized Gain on Marketable Securities	4,012

Policyholders' Surplus, December 31, 2010	\$ 2,001,387
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

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5467 TOLL FREE: 1-866-982-199
E-MAIL: pikemutual@yahoo.com

PIKE COUNTY MUTUAL INS. CO.

September 14, 2011

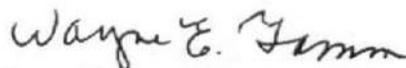
Tammy Rodieck, Exam Coordinator
Department of Insurance

Dear Ms. Rodieck:

I have received the Examination Report of the Pike County Mutual Insurance Company for the period ending December 31, 2010. I have examined it, and find there are no general comments or recommendations contained on page 10. I have no objections to my response being included in the report as a public document.

If you have any questions, please feel free to contact me.

Sincerely,



Wayne E. Gamm
President

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