REPORT OF
FINANCIAL EXAMINATION

PIKE COUNTY MUTUAL INSURANCE COMPANY

As Of
December 31, 2005

FILED
AUG 24 2006
DIRECTOR OF INSURANCE

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 5

EMPLOYEE BENEFITS AND PENSION PLANS 5

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 6

REINSURANCE 6

ASSUMED 6

CEDED 6

ACCOUNTS AND RECORDS 7

FINANCIAL STATEMENTS 7

ASSETS 8

LIABILITIES, SURPLUS AND OTHER FUNDS 8

STATEMENT OF INCOME 9

CAPITAL AND SURPLUS ACCOUNT 9

NOTES TO FINANCIAL STATEMENTS 9

EXAMINATION CHANGES 9

GENERAL COMMENTS AND/OR RECOMMENDATIONS 9

SUBSEQUENT EVENTS 10

ACKNOWLEDGMENT 11

VERIFICATION 11

SUPERVISION 11

June 12, 2006
Bowling Green, 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

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 was conducted at the home office in Bowling Green, Missouri. The examination began May 2, 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, and the unearned premium calculation.

Comments – Previous Examination

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

Comment: Fidelity and Other Insurance

The Company should obtain fidelity coverage of at least $50,000. This is the minimum amount recommended by the National Association of Insurance Commissioners for a company of their size and complexity.

Company Response:

The Company agreed to obtain additional fidelity coverage.

Current Findings:

The Company obtained and maintains $50,000 of fidelity coverage.

Comment: Accounts and Records

The Company should obtain approval from the Missouri Department of Insurance before making investments which are not specifically authorized by Missouri statute or regulation.

Company Response:

The Company agreed to obtain approval for any investment not specifically authorized by Missouri statute or regulation.

Current Findings:

The Company obtained permission from the Missouri Department of Insurance for investments that were not specifically authorized by Missouri statute or regulation that it owned as of the last exam and for a new investment obtained during the period under examination.

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 Department of Insurance. In 1984, the Company changed its name to Pike County Mutual Insurance Company.

Management and Control

A board of seven directors provides oversight of the Company. Each director serves a three-year term with three directors elected in two of the years and two elected in a third year. Directors are elected at annual member meetings held on the third Tuesday in February. 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. Eight members constitute a quorum at annual member meetings. Proxy voting is not permitted.

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

Name/Address	Occupation	Term
Wayne Gamm, President 16146 Pike 280 Bowling Green, MO 63334	Farmer	2004 to 2007
Gilbert Schuckenbrock, Vice-President 13522 Pike 406 Bowling Green, MO 63334	Farmer	2005 to 2008
Joe M. Branstetter 21484 Pike 452 Curryville, MO 63339	Retired	2003 to 2006
Robert Thomas Meyer 22941 Pike 222 Eolia, MO 63344	Mail Carrier/ Farmer	2004 to 2007
Henry Hueffner 20 S. 13th Street Bowling Green, MO 63334	Retired	2005 to 2008
Homer Sterne 19232 Hwy 79 Clarksville, MO 63336	Retired	2003 to 2006
Eugene Traynor 2983 Hwy V Vandalia, MO 63382	Farmer	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 July 10, 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 Cameron Mutual Insurance Company. This meets the minimum level recommended by the National Association of Insurance Commissioners. The Company owns an agency and employs two agents. Errors and omissions coverage (aggregate limit of $1,000,000) is obtained by the Pike 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 $1,000,000, is provided by MAMIC Mutual. The Company has a property and liability policy for its home office provided by Cameron Mutual with limits of $154,900 on the property and $2,000,000 aggregate liability. Employees are protected by a workers compensation policy from Missouri Employers Mutual Insurance Company.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has four full-time employees; the manager, two agents and a secretary. The Company also has an independent agent. Benefits provided include group health insurance, paid holidays, vacation and sick leave days. The Company has no retirement plan but the Company offers a deferred compensation program. The Company also pays for continuing education seminars for agents.

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 Pike and surrounding counties. The board of directors sets rates and authorizes exclusions. 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 supplied 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.

Most claims are adjusted by Central Missouri Consulting and Adjusting while the Company's agents adjust only minor claims. Information is gathered for liability claims and forwarded to Grinnell Mutual Reinsurance Company, the reinsurer, for liability coverage. When claims are made, policyholders' files are placed in separate folders until the claim is closed.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	2001	2002	2003	2004	2005
Admitted Assets	1,430,872	1,521,942	1,539,291	1,470,378	1,686,674
Liabilities	21,700	276,569	233,196	337,066	281,338
Gross Assessments	587,474	607,190	679,246	734,655	776,324
Losses Incurred	356,622	315,097	368,983	761,157	245,237
Investment Income	45,432	58,983	54,032	56,047	61,990
Underwriting Income	44,576	(26,213)	13,630	(222,156)	216,017
Net Income	86,372	27,586	60,722	(172,783)	273,020
Policies In Force	1,383	1,403	1,411	1,446	1,424

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 agreements with Grinnell Mutual Reinsurance Company. 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 $50,000 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 in an automated system. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from Rural Computer Consultants. Claims are kept in separate open claims folders. Once settled, they are moved to the closed claims file area.

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 and included an unearned premium reserve.

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	$	344,154
Stocks		99,396
Real Estate		7,735
Cash on Deposit		1,129,912
Computer Hardware		5,028
Federal Income Tax Recoverable		2,165
Accrued Interest Receivable		3,531
Asset Write Ins		94,753
Total Assets	**$**	**1,686,674**

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	$	12,000
Ceded Reinsurance Payable		17,684
Unearned Premium		244,816
Accounts Payable		6,838
Total Liabilities	**$**	**281,338**
Guaranty Fund (Note 1)		150,000
Other Surplus		1,255,336
Total Policyholder Surplus	$	1,405,336
Total Liabilities and Surplus	**$**	**1,686,674**

STATEMENT OF INCOME

Net Assessments (Premiums)	$ 611,933
Reinsurance Commissions	42,359
Net Losses	(144,839)
Underwriting Expenses	(293,436)
Net Underwriting Income (Loss)	**$ 216,017**
Other Income	48
Net Investment Income	61,990
Federal Income Tax	(5,035)
Net Income	**$ 273,020**

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2004	$ 1,133,312
Net Income (reported by the Company)	273,020
Changed in Unrealized Gains or Losses on Marketable Securities	(996)
Examination Changes (Net)	-
Policyholder Surplus, December 31, 2005	**$ 1,405,336**

NOTES TO FINANCIAL STATEMENTS

There are no notes to the financials.

EXAMINATION CHANGES

There are no examination changes made during this examination.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

There are 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 Pike 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:

5/9/2009

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

22 WEST MAIN
BOWLING GREEN, MO 63334
(573) 324-5301 FAX: (573) 324-5467
E-MAIL: pikemutual@yahoo.com

PIKE COUNTY MUTUAL INS. CO.

RECEIVED
AUG 1 0 2006
DIVISION
FINANCIAL REGULATION

August 3, 2006

Mr. Kirk Schmidt
Chief Financial Examiner
P. O. Box 690
Jefferson City, MO 65102-0690

Dear Mr. Schmidt:

I have received a copy of the Examination Report of Pike County Mutual Insurance Company for the period ending December 31, 2005. I have reviewed the General Comments and Recommendations contained on page 9 of the Examination Report. There were none, therefore it is my understanding that there are no corrective actions that need to be taken.

I find the report acceptable as presented, and have no objections to my comments being included in the report as a public document.

I await authorization from your office before copies of the report are distributed.

Sincerely,

Wayne E. Gamm

Wayne Gamm
President

State of Missouri

Matt Blunt, Governor

Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

W. Dale Finke
Director

August 24, 2006

Wayne Gamm, President
Pike County Mutual Insurance Company
22 West Main
Bowling Green, MO 63334

Dear Mr. Gamm:

This letter is to inform you that as of this date the Missouri Department of Insurance is filing a copy of the Examination Report of Pike County Mutual Insurance Company for the period ending December 31, 2005 in this office as a public document. The Department is issuing the Examination Report pursuant to section 374.205, RSMo, and 20 CSR 10-2.400(3)(K)1.

Please be reminded that you are responsible to fully implement each item mentioned in the General Comments and/or Recommendation section of the Examination Report. Verification of compliance with the items in the General Comments and/or Recommendation section must be received by the Department within ninety (90) days of the date of this letter.

You are requested to submit copies of this Examination Report to the members of the Board of Directors at its next regularly scheduled meeting. After this has been accomplished, you should send to this office a signed copy of the minutes of the meeting which should reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

Sincerely,

W. DALE FINKE, Director
Missouri Department of Insurance

Kirk Schmidt

By: KIRK SCHMIDT, CPA, CFE
Chief Financial Examiner

WDF/KS/ams