REPORT OF

FINANCIAL EXAMINATION

Ralls County Mutual Insurance Company

As of:

December 31, 2004

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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November 28, 2005
Center, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

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

Ralls 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 110 South Public, Center, Missouri 63436; telephone number (573) 267-3551. This examination was conducted at the home office in Center, Missouri. The examination began November 7, 2005, and concluded November 28, 2005.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance, for the period ending December 31, 1999. The current examination covers the period from January 1, 2000, through December 31, 2004, 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.

Comments - Previous Examination Report

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

1. Comment: "The Company should take action to ensure that the financial statements are presented in accordance with Missouri Department of Insurance regulations. Specifically, approval should be obtained for the total real estate value to be shown in the annual statement and the book value of other depreciable assets should be based on standard depreciation methods. Also, software costs should not be included in the computer equipment line of the annual statement. Finally, the guaranty fund should be shown in the annual statement."

Company Response: Company management indicated that these issues would be addressed.

Current Findings: The Company received approval on June 12, 2000, from the Missouri Department of Insurance to show the total value of its real estate in the annual statement. The Company is depreciating its assets using the straight-line depreciation method. Software is no longer being included as part of the balance for computer equipment on the annual statement and the guaranty fund has been shown on the annual statement for all years currently under examination. It appears that all areas of concern have been adequately addressed.

HISTORY

General

The Company was incorporated on May 27, 1890, as the Ralls County Farmers Fire Insurance Association. On September 16, 1959, the Company was reorganized under the provisions of Chapter 380 RSMo, and changed its name to Ralls County Farmers Mutual Fire Insurance Company. In 1985, the Company amended its Articles of Incorporation to comply with Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Insurance Companies). The Company received a Certificate of Authority from the Missouri Department of Insurance at that time. In 1991, the Certificate of Authority was amended to change the Company's name to Ralls County Mutual Insurance Company. On January 19, 2004, the Company amended its Articles of Incorporation to change from an assessable to a nonassessable mutual.

Management and Control

The Company is managed by a board of nine directors, serving staggered three-year terms. Directors are elected at annual members meetings held on the third Monday of January. Special meetings of the members may be called by the Board or upon petition of one-fourth of the members. Ten members constitute a quorum at annual meetings.

The Board consisted of the following members as of December 31, 2004:

Name / Address	Occupation/Employer	Term
Russell Dean Baker, President 46258 Highway 154 Perry, Missouri 63462	Agent and Farmer	2002-2004

Name / Address	Occupation	Term
Donald LaRue, Vice President 1 Thomas Avenue Monroe City, Missouri 63456	Agent and Realtor	2003-2005
Denise Power, Secretary 31613 Highway B Perry, Missouri 63462	Agent and Cannon Water District I	2003-2005
Richard E. Dryden, Treasurer 12201 Highway 79 Hannibal, Missouri 63401	Agent and Fireman	2004-2006
Stephen Glascock 12865 Highway H Hannibal, Missouri 63401	Farmer	2002-2004
Michael Houchins 403 North Low Frankford, Missouri 63441	Agent and Car Salesman	2004-2006
Linda Tatman 62140 Highway N New London, Missouri 63459	Hannibal Vo-Tech School	2002-2004
Wallace Hart 47292 Highway CC Center, Missouri 63436	Agent and Farmer	2003-2005
James A. Woollen 53766 Highway M New London, Missouri 63459	Farmer	2004-2006

Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors. No conflicting situations were identified during this examination.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual meetings, board meetings and executive 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. The Board formally acknowledged receipt of the previous Missouri Department of Insurance report of examination at its July 17, 2000, meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage of $50,000 from RLI Insurance Company. This meets the minimum suggested amount recommended by the National Association of Insurance Commissioners. Errors and omissions coverage from the Missouri Association of Mutual Insurance Companies (MAMIC) is provided by the Company for its agents. Directors and officers coverage, with a limit of $2,000,000, is also provided by MAMIC. The Company obtained a property and liability policy for its home office from Cameron Mutual Insurance Company.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has one full-time employee and two part-time employees. Benefits provided to full-time employees are paid holidays, vacation, and sick days. Part-time employees are granted paid holidays. The Company has a Workers Compensation policy with Missouri Employers Mutual Insurance Company covering all employees.

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 380.591, RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverages in all Missouri counties, although the business is primarily written in Ralls, Audrain, Pike, Marion and Monroe Counties. Cameron Country Mutual Insurance Company (Cameron) writes the liability coverage under a 100% quota share reinsurance agreement. During 2003, the Company assumed the Inland Marine business formerly written by Cameron. The Company advertises through some radio stations and newspapers and participates in promotional activities involving local fairs, schools and other similar groups.

Policy Forms and Underwriting Practices

The Company writes continuous renewable policies with policy forms provided by the American Association of Insurance Services (AAIS). The Board of Directors approves rates to be charged. Inspections and claims adjusting are performed by the Company's independent agents. Claims involving liability coverage are adjusted by Cameron. The Company uses an outside adjuster on larger losses that may exceed the Company's retention.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2000	2001	2002	2003	2004
Admitted Assets	2,190,385	2,385,292	2,366,823	2,369,725	2,447,074
Liabilities	408,612	408,394	430,261	397,831	449,513
Gross Assessments	646,799	672,193	851,716	936,012	1,073,111
Losses Incurred	409,025	248,071	470,652	261,901	357,457
Investment Income	107,707	105,084	70,683	56,218	54,227
Underwriting Income	(122,787)	78,832	(171,579)	(15,221)	(31,756)
Net Income	(31,701)	169,760	(50,666)	45,571	28,122
Policies In Force	1,834	1,889	1,929	2,053	2,172

These figures are based on data from annual statements provided by the Company. These results indicate the Company is growing in terms of premiums written and in the number of policies.

REINSURANCE

Assumed

None.

Ceded

The Company has reinsurance protection through four contracts with Cameron Country Mutual Insurance Company.

The Per Risk Excess of Loss Property Reinsurance Contract provides coverage in two layers. The first layer requires a Company retention of $40,000 up to the reinsurer's limit of liability of $100,000. The second layer calls for a retention of $140,000 with a reinsurer's limit of liability at $50,000. The contract has a per risk limit of $190,000 for Commercial/Confinement risks and $390,000 for all other risks. There is a $700,000 per occurrence limit for both first and second layers combined. The Company pays a premium of 13.81% and 2% for the first and second layers, respectively.

The Catastrophe Excess of Loss Property Reinsurance Contract provides coverage in two layers. The first layer calls for a Company retention of $267,000 with reinsurer limits of $950,000. The second layer requires a retention of $1,267,000 and a reinsurer limit of $4,000,000. There is a per risk limit of $190,000 for Commercial/Confinement risks and $390,000 for all other risks. The reinsurer has an annual limit of $2,000,000 for the first layer and $8,000,000 for the second layer. The annual premium is at a rate of $0.1858 and $0.2492 per $1,000 of total in-force premium for the first and second layers, respectively.

The Aggregate Excess of Loss Property Reinsurance Contract has an attachment point of 75% of net written premium. The reinsurer covers 95% of loss up to a maximum limit of $2,000,000 with a per risk limit of $190,000 for Commercial/Confinement risks and $390,000 for all other risks. The Company pays a premium of 3% for this coverage.

The Liability Quota Share Reinsurance Contract calls for no retention by the Company. The reinsurer covers 100% of all losses. The Company is paid a ceding commission of 22%.

The reinsurance contract was reviewed and no unusual clauses or requirements were noted. The contract included the necessary and usual clauses.

ACCOUNTS AND RECORDS

The Company prepares its annual statement on an accrual basis. The Company has hired the CPA firm of Van de Ven, LLC to prepare its financial statements. Accounting records for premiums, claims and financial reporting are kept on a personal computer based software package from Rural Computers Consultants. A separate claims register is also maintained showing the date of loss and amounts paid for each claim.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2004, 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, with respect to their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	$392,683
Stocks	194,630
Real Estate	197,079
Cash on Deposit	1,539,384
Reinsurance Recoverable on Unpaid Losses	23,903
Computer Equipment	6,664
Federal Income Tax Recoverable	1,138
Interest Due and Accrued	9,074
E/O & D/O Receivable	82,519
Total Assets	$2,447,074

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid (Note 1)	$66,720
Ceded Reinsurance Payable	13,083
Unearned Premium	381,716
Accounts Payable	10,696
Payroll Taxes Payable	565
Unrecorded Liabilities (Note 2)	675
Total Liabilities	$473,455
Guaranty Fund	$263,500
Other Surplus	1,710,119
Total Policyholder Surplus	$1,973,619
Total Liabilities and Surplus	$2,447,074

STATEMENT OF INCOME

Net Assessments	$648,905
Reinsurance Commissions	44,272
Net Losses	(357,457)
Underwriting Expenses	(367,476)
Net Underwriting Income (Loss)	(31,756)
Other Income	9,834
Net Investment Income	54,226
Federal Income Tax	(4,182)
Net Income	$28,122

CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2003	$1,971,894
Net Income (reported by the Company)	28,122
Unrealized Loss in Marketable Securities	(2,455)
Examination Changes (Net)	(23,942)
Policyholders' Surplus, December 31, 2004	$1,973,619

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Losses Unpaid $66,720

During a review of claim payments in 2005, we noticed that the Company paid several claims with a loss date of 2004 that had not been reserved as of year-end. The liability for Losses Unpaid has been increased by $23,267 for these unreserved losses. The Company should ensure that all unpaid claims are processed in a timely manner for the necessary reserve to be established.

Note 2 Unrecorded Liabilities $675

The Company had not accrued for the Board of Directors fees for the December 2004 meeting which had been paid subsequently. The Company should accrue for these fees or reimburse each Director before year's end.

EXAMINATION CHANGES

Total Policyholder Surplus per 2004 Annual Statement:			$1,997,561
	Increase In Surplus	Decrease In Surplus	
Change in Losses Unpaid	$0	$(23,267)	
Change in Unrecorded Liabilities	0	(675)	
Total Increase / Decrease in Surplus	$0	$(23,942)	
Net Increase / (Decrease) in Surplus			(23,942)
Total Policyholder Surplus per 2004 Examination			$1,973,619

GENERAL COMMENTS AND RECOMMENDATIONS

Losses Unpaid *Page 12*

The Company should ensure that all unpaid claims are processed in a timely manner for the necessary reserve to be established.

Unrecorded Liabilities *Page 12*

The Company should accrue for the December Board of Director fees or reimburse each Director before year's end.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Karen 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 examiners find reasonably warranted from the facts.

Karen J. Milster

Karen J. Milster, CPA, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 28th day of November, 2005.

My commission expires: 5-9-2009

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

Julie Katsaras

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.

Christiana Dugopolski

Christiana Dugopolski, CPA, CFE
Audit Manager - St. Louis
Missouri Department of Insurance