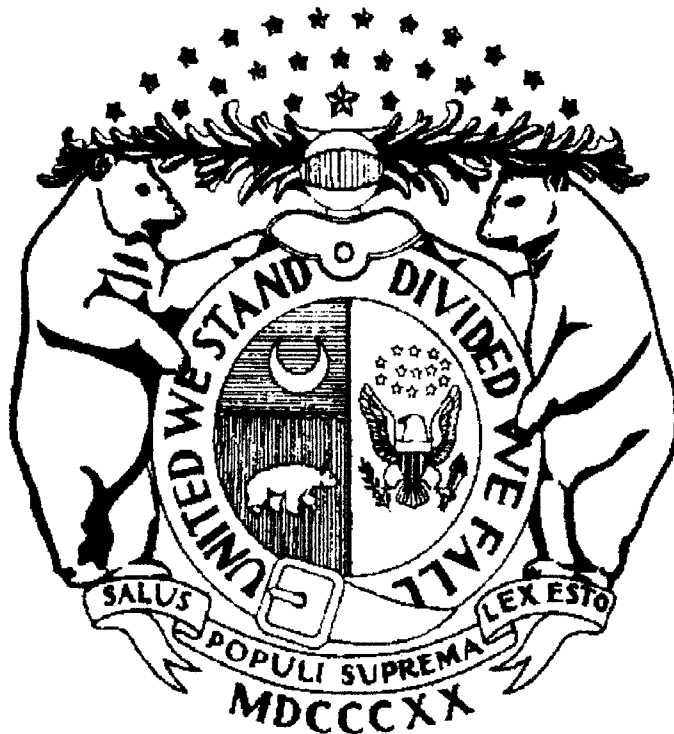


**REPORT OF THE
FINANCIAL EXAMINATION OF
BUNCETON MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2006**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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June 21, 2007
Bunceton, Missouri

Honorable Douglas M. Ommen, 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

BUNCETON MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 100 East Main (P.O. Box 45), Bunceton, Missouri 65237, telephone number (660) 427-5521. This examination began on June 20, 2007, and was concluded on June 21, 2007, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2001, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2002, through December 31, 2006, 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 in the Financial Examiners Handbook of 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

The comments, recommendations, and notes of the previous examination report dated December 31, 2001, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Territory and Plan of Operations

Comment: It was recommended the Company amend its agent agreements to specify a time limit for the delivery of fully completed applications to the home office and to stipulate who is responsible for obtaining errors and omissions coverage for the agents.

Company Response: The Company amended its agent agreements to specify a time limit for the delivery of fully completed applications to the home office and to stipulate who is responsible for obtaining errors and omissions coverage for the agents.

Current Findings: The Company amended its agent contracts to contain the language recommended in the previous examination report.

HISTORY

General

The Company was originally organized and incorporated on February 4, 1896, as Cooper County Farmers Mutual Fire Insurance Company. In January 1971, the Company amended its Articles of Incorporation and changed its name to Bunceton Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Thursday in March at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated \$75 per each attended meeting.

Members serving on the Board of Directors as of December 31, 2006, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
E. Kirtley Lewis 3953 Roberts Drive Otterville, Missouri	Farmer	2005-2008
Estell Williams 18406 Harned Road Bunceton, Missouri	Farmer	2006-2009
Barbara Dicus 6625 B Highway Bunceton, Missouri	Company Manager/Insurance Agent	2004-2007
Donald Warnke 3222 Butterfield Trail Mora, Missouri	Agricultural Company Supervisor	2006-2009
Kathryn Wahlers 3744 Walnut Road Stover, Missouri	Insurance Agent	2005-2008
John Schibi 8344 North Highway Pilot Grove, Missouri	Farmer	2004-2007

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, 2006, were as follows:

E. Kirtley Lewis	President
Estell Williams	Vice-President
Barbara Dicus	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. Potential conflicts noted were that two of the directors were also writing agents for the Company and its reinsurer.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. At the September 25, 2002, membership meeting, the Articles of Incorporation and Bylaws were amended and restated to facilitate the Company's change from an assessable to a non-assessable Missouri Mutual Insurance Company by removing all references to assessments. Gender-specific terms were also removed from the documents. The annual membership meeting time was also changed from 10:00AM to 10:30AM in the Articles of Incorporation.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$2,000,000 and a \$5,000 deductible in aggregate for each claim.

Each of the Company's three agents carries errors and omissions coverage with an aggregate limit of \$500,000 and a \$1,000 deductible.

The Company carries business owners insurance which provides property coverage for its building and contents and general liability coverage.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees. The Company provides the employees with medical, dental, long-term disability and term life insurance. The Company also contributes a percentage of each employee's annual salary into a SIMPLE individual retirement account. Employees are provided with paid vacation and sick leave. The Company appears to have made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by 3 licensed agents, who receive a commission of 15%.

Policy Forms and Underwriting Practices

The Company uses AAIS forms and forms provided by its reinsurer, Cameron Country Mutual Insurance Company, as well as forms developed by the Company. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services for minor claims are performed by the agents. Claims adjusting for significant claims are performed by independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2006	\$1,493,719	\$283,036	\$539,896	\$572,055	\$57,530	\$(205,068)	\$(147,538)
2005	1,562,166	203,945	534,547	214,985	42,715	(23,285)	19,430
2004	1,544,622	204,575	528,552	175,157	31,092	1,618	37,891
2003	1,497,044	196,545	433,742	337,406	44,608	(130,576)	(74,918)
2002	1,554,405	187,759	425,712	97,591	50,543	92,472	150,879

At year-end 2006, 1,057 policies were 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct	\$425,712	\$433,742	\$528,552	\$534,547	\$539,896
Assumed	0	0	0	0	0
Ceded	<u>(7,549)</u>	<u>(83,125)</u>	<u>(173,310)</u>	<u>(201,486)</u>	<u>(211,535)</u>
Net	<u>\$418,163</u>	<u>\$350,617</u>	<u>\$355,242</u>	<u>\$333,061</u>	<u>\$328,361</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$20,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$120,000 and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$170,000 for commercial and confinement risks and \$370,000 for all other risks. The 2006 premium rate, as a percentage of written premiums, equaled 13.64% for layer one coverage and 2% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$122,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,122,000, and the reinsurer's limit is 100% of \$2,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$4,000,000 for the second layer. The 2006 premium rate was \$.1548 and \$.1250 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with a limit of \$2,000,000.

The 2006 reinsurance rate was 3% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Van de Ven, LLC, performs an annual review of the Company's financial statements, compiles the annual statement and prepares the Company's tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2006, 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, 2006

Bonds	\$ 108,113
Real Estate	1,785
Cash on Deposit	1,359,168
Computer Equipment	4,537
Interest Due & Accrued	10,813
Reinsurance Deposit	9,303

Total Assets	<u><u>\$ 1,493,719</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2006

Net Losses Unpaid	\$ 92,359
Ceded Reinsurance Premium Payable	5,127
Unearned Premium	182,475
Liability Write-Ins	3,075

Total Liabilities	\$ 283,036

Guaranty Fund	\$ 150,000
Other Surplus	1,060,683

Total Surplus	1,210,683

Total Liabilities and Surplus	<u><u>\$ 1,493,719</u></u>

STATEMENT OF INCOME
For the Year Ending December 31, 2006

Net Premiums Earned	\$ 329,407
Other Insurance Income	28,070
Net Losses & Loss Adjustment Expenses Incurred	(363,042)
Other Underwriting Expenses Incurred	(199,503)

Net Underwriting Income (Loss)	\$ (205,068)
Investment Income	\$ 57,530

Gross Profit (Loss)	\$ (147,538)
Federal Income Tax	0

Net Income (Loss)	\$ (147,538)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2006

Policyholders' Surplus, December 31, 2005	\$ 1,358,221
Net Income (Loss)	(147,538)

Policyholders' Surplus, December 31, 2006	\$ 1,210,683
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.

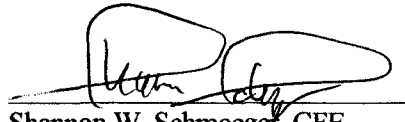
ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger 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.

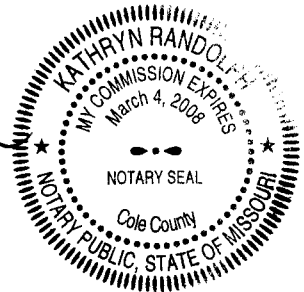

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 26th day of July, 2007.

My commission expires:

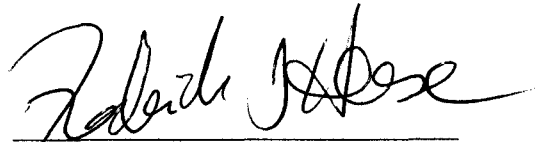
March 4, 2008


Kathryn Randolph
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.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP