

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Farmers Mutual Aid Association)
10591 Lincoln Highway)
Everett, PA 15537)

Examination of Farmers Mutual Aid Association

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Farmers Mutual Aid Association, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on February 4, 2014, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Farmers Mutual Aid Association shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

April 15, 2014
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0029 9592 55

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10591 Lincoln Highway)
Everett, PA)

Examination of Farmers Mutual Aid Association

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Mutual Aid Association (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on August, 19 2013.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on February 4, 2014 and was received by the Company on February 7, 2014.

The Company did not file any objections.

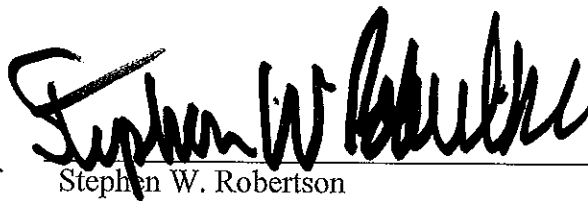
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Farmers Mutual Aid Association as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Farmers Mutual Aid Association to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 15 day of
April, 2014.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in dark ink, appearing to read "Michael W. [unclear]", is written across the lower portion of the page.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

FARMERS MUTUAL AID ASSOCIATION
NAIC Co. CODE 92291

As of

December 31, 2012

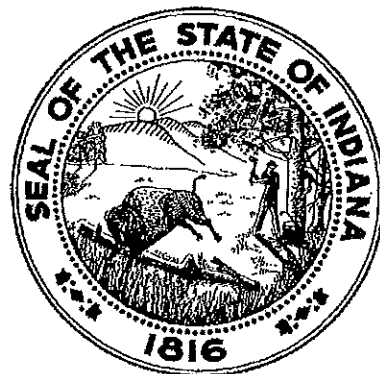


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STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

August 19, 2013

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3764, an examination has been made of the affairs and financial condition of:

**Farmers Mutual Aid Association
10591 Lincoln Highway
Everett, Pennsylvania 15537.**

hereinafter referred to as the "Association", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the offices of Noble Consulting Services, Inc. in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Association as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

SCOPE OF EXAMINATION

The Association was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2007. The present examination, covering the period from January 1, 2008 through December 31, 2012, was conducted by Noble Consulting Services, Inc. (Noble) on behalf of the state of Indiana.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the Association, evaluating system controls, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

HISTORY

The Association was organized in 1868 as the Farmers Mutual Aid Association of Elkhart County. In January, 1992, the Association amended its Articles of Association by eliminating the words "of Elkhart County" from its name. In December, 1997, the Directors elected to be managed by Everett Cash Mutual Insurance Company (ECMIC).

The purpose of the Association shall be to insure its policyholders against loss from hazards permitted to be insured against by the farm mutual code under which it operates and to distribute on the mutual insurance plan such loss as may occur in spite of reasonable precautions.

CAPITAL AND SURPLUS

The Association is owned by its 133 policyholders. As of December 31, 2012, the Association had surplus of \$308,909.

TERRITORY AND PLAN OF OPERATION

The Association conducts business in every county within the state of Indiana.

The Association primarily insures dwellings and farm buildings against fire and wind-type losses. Policies are written on a one (1) year basis.

GROWTH OF THE ASSOCIATION

The following exhibit summarizes the financial results of the Association, as reported during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>
2012	\$433,693	\$124,784	\$308,909
2011	801,183	109,657	691,526
2010	930,416	114,009	816,407
2009	926,627	108,015	818,613
2008	1,128,873	329,284	799,589

MANAGEMENT AND CONTROL

Policyholders

Policyholders of the Association are considered its owners. An annual meeting of policyholders is held each year for the purpose of electing a Board of Directors and addressing such other business as may come before it. Each policyholder is entitled to one (1) vote.

Directors

The powers of the Association are vested in a Board of Directors consisting of all Directors of ECMIC and one (1) Indiana resident policyholder, elected for a term of three (3) years. The following persons were serving as Directors at December 31, 2012:

<u>Name</u>	<u>Residence</u>
Mark Barnhart	Everett, PA
George Bridenbaugh	Martinsburg, PA
Richard Rowan	Chambersburg, PA
Randy Shaw	Everett, PA
Bette Slayton	Bedford, PA
Jerry Stanner	Howe, IN
Kenneth Stover	Roaring Spring, PA
Larry Webber	Gettysburg, PA
Donn Whetstone	Everett, PA
Jeffrey Whetstone	Everett, PA

Officers

The officers of the Association consist of a President, one (1) or more Vice Presidents, a Secretary, and a Treasurer. Officers are elected at the annual meeting of the Board of Directors to serve a term of one (1) year. At December 31, 2012, the Vice President position was vacant. The following persons were serving as officers at December 31, 2012:

<u>Name</u>	<u>Office</u>
Randy Shaw	President
Shirley Mock	Secretary
Kerry Foor	Treasurer

CONFLICT OF INTEREST

Officers and Directors are required to review and sign Conflict of Interest statements annually. Per review of the signed statements, it was noted that the Directors and officers listed in the Management and Control section of this Report of Examination fulfilled that requirement.

OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) requires every Director must sign an Oath of Office. The Company did not provide the signed Oath of Office statements for all Directors and officers listed in the Management and Control section of this Report of Examination, as requested.

See the Summary of Significant Findings section.

CORPORATE RECORDS

Articles of Association

There were no amendments to the Articles of Association during the examination period.

Bylaws

There were no amendments to the Bylaws during the examination period.

Minutes

Minutes from the Board of Directors meetings and the annual meetings of the policyholders were reviewed for the period under examination. Minutes documented the Board's oversight of operations.

AFFILIATED COMPANIES

The Company entered into a Cost Sharing Agreement with ECMIC on May 5, 2009. The agreement has continued in effect throughout the period of examination. Terms of the agreement call for ECMIC to provide various management services to the Company for a percentage of the premiums serviced by ECMIC with a minimum fee of \$50,000 per year.

FIDELITY BOND AND OTHER INSURANCE

The Association protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$500,000. Based on the admitted assets and gross income of the Association, the Association is in compliance with the prescribed minimum coverage specified by the NAIC.

REINSURANCE

The Association's reinsurance program is written through ECMIC (Reinsurer). The current treaty became effective January 1, 2012.

Under the terms of the treaty, the Reinsurer assumes liability over and above the Association's retention of \$50,000 per loss up to a maximum of \$700,000. Under no circumstances shall the Reinsurer's liability exceed \$700,000 from all risks for all loss occurrences.

See the Summary of Significant Findings section.

ACCOUNTS AND RECORDS

The Association's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The Association uses an accounting system for their general ledger, which generates the trial balances at year-end. Material balances reflected in the December 31, 2012 Annual Statement and trial balance were agreed to supporting documentation. Adjustments in the financial statements below are for the purpose of reconciling the change in surplus and presenting the financial statements on a full accrual basis.

FARMERS MUTUAL AID ASSOCIATION

FINANCIAL STATEMENTS

Assets, Liabilities, and Surplus

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
Assets:				
Bank balances	\$ 427,734	\$ -	\$ 427,734	\$ 789,904
Unpaid premiums	5,959	-	5,959	11,279
Total Assets	\$ 433,693	\$ -	\$ 433,693	\$ 801,183
Liabilities and Surplus:				
Total unpaid losses	\$ 23,209	\$ -	\$ 23,209	7,051
Less: reinsurance recoverable on unpaid losses	-	-	-	-
Net unpaid claims	23,209	-	23,209	7,051
Ceded reinsurance balances payable	10,540	-	10,540	6,769
Unpaid salaries and commissions	(258)	-	(258)	286
Other unpaid expenses	2,720	-	2,720	2,720
Unearned premium reserve	24,273	-	24,273	42,831
Payable to affiliates	64,300	-	64,300	50,000
Total liabilities	124,784	-	124,784	109,657
Surplus	308,909	-	308,909	691,526
Total liabilities and surplus	\$ 433,693	\$ -	\$ 433,693	\$ 801,183

FARMERS MUTUAL AID ASSOCIATION

FINANCIAL STATEMENTS

Statement of Income and Changes in Surplus

	As of December 31, 2012			
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>December 31,</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>2011</u>
Income:				
Premiums, net of reinsurance	\$ 48,487	\$ -	\$ 48,487	\$ 68,967
Total income from investments	3,159	-	3,159	11,537
Income from finance and service charges	107	-	107	218
Total income	<u>51,753</u>	<u>-</u>	<u>51,753</u>	<u>80,722</u>
Disbursements:				
Losses, net of reinsurance	321,766	-	321,766	114,428
Total operating expenses	106,457	-	106,457	94,038
Total non-operating expenses	(14,300)	-	(14,300)	-
Change in ledger assets and liabilities	20,447	-	20,447	(2,863)
Total disbursements	<u>434,370</u>	<u>-</u>	<u>434,370</u>	<u>205,603</u>
Net Income	(382,617)	-	(382,617)	(124,881)
Surplus, beginning of period	691,526	-	691,526	816,407
Surplus, end of Period	<u>\$ 308,909</u>	<u>\$ -</u>	<u>\$ 308,909</u>	<u>\$ 691,526</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There are no recommended adjustments to the financial statements based on the current examination.

SUMMARY OF SIGNIFICANT FINDINGS

Based on the Association's historical performance and current revenue and expenses, there are questions regarding the Association's ability to continue as a going concern. The Association needs to develop a viable business plan which addresses the best interest of its policyholders.

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such Company. Signed Oaths of Office were not provided by the Company, as stipulated by the Indiana Code.

IC 27-1-13-6 stating (a) No company organized to make any kind or kinds of insurance included in class II and class III of IC 27-1-5-1 may take, on any one (1) risk of whatever nature, a sum exceeding one-tenth (1/10th) part of its paid-up capital, surplus, and contingent reserves, if any, if a stock company, or one-tenth (1/10th) of its surplus and contingent reserves, if any, if other than a stock company. The Association's risk retention is \$50,000 per risk, as of December 31, 2012, which is 16.2% of surplus, as of December 31, 2012 (\$308,909).

IC 27-1-7-21 stating (a) The maximum premium shall be expressed in the policy of a mutual company and shall be solely a cash premium without contingent premium but no such company other than a life insurance company shall issue any policy providing limits of liability for any one (1) risk under any one (1) line of insurance in an amount exceeding five percent (5%) of its surplus, including contingent reserves, if any, until and unless it either possesses a surplus, including contingent reserves, if any, of at least four hundred thousand dollars (\$400,000), or has reinsured in a reinsurer (or reinsurers) admitted to do business in this state and authorized to make such kind or kinds of reinsurance in this state all of such liability in excess of such amount or such greater amount as the commissioner may authorize and such reinsurance contract or contracts shall have been submitted to and approved by the commissioner. The Code goes on to state in no event shall the unreinsured liability assumed under this section on any one (1) risk exceed the amount otherwise authorized by this article to be written upon any one (1) risk. The Association's risk retention is \$50,000 per risk, as of December 31, 2012, which is 16.2% of surplus, as of December 31, 2012 (\$308,909).

SUBSEQUENT EVENTS

The Association changed its reinsurance retention from \$50,000 to \$35,000 effective January 1, 2013.

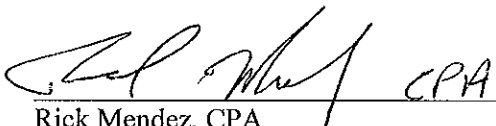
AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **Farmers Mutual Aid Association**, as of **December 31, 2012**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the 2013 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this Report of Examination.

The attached Report of Examination is a true and complete report of condition of **Farmers Mutual Aid Association**, as of **December 31, 2012**, as determined by the undersigned.



Rick Mendez, CPA
Noble Consulting Services, Inc.

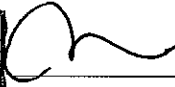
State of:
County of:

On this 26 day of August 2013, before me personally appeared, Rick Mendez, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires





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